BAC

98th Congress
2d Session

COMMITTEE PRINT

WMCP: 98-29

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

TRADE MISSION TO CENTRAL AND EASTERN EUROPE

MARCH 29, 1984

U.S. GOVERNMENT PRINTING OFFICE

32-693 O

WASHINGTON : 1984

H782-19

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J. J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY H. (PETE) STARK, California
JAMES R. JONES, Oklahoma
ANDY JACOBS, JR., Indiana
HAROLD FORD, Tennessee
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
THOMAS J. DOWNEY, New York
CECIL (CEC) HEFTEL, Hawaii
WYCHE FOWLER, JR., Georgia
FRANK J. GUARINI, New Jersey
JAMES M. SHANNON, Massachusetts
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
KENT HANCE, Texas
ROBERT T. MATSUI, California
BERYL ANTHONY, JR., Arkansas
RONNIE G. FLIPPO, Alabama
BYRON L. DORGAN, North Dakota
BARBARA B. KENNELLY, Connecticut

BARBER B. CONABLE, JR., New York
JOHN J. DUNCAN, Tennessee
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
JAMES G. MARTIN, North Carolina
RICHARD T. SCHULZE, Pennsylvania
BILL GRADISON, Ohio
W. HENSON MOORE, Louisiana
CARROLL A. CAMPBELL, JR., South Carolina
WILLIAM M. THOMAS, California

JOHN J. SALMON, *Chief Counsel*
JOSEPH K. DOWLEY, *Assistant Chief Counsel*
ROBERT J. LEONARD, *Chief Tax Counsel*
A. L. SINGLETON, *Minority Chief of Staff*

SUBCOMMITTEE ON TRADE

SAM M. GIBBONS, Florida, *Chairman*

DAN ROSTENKOWSKI, Illinois
JAMES R. JONES, Oklahoma
ED JENKINS, Georgia
THOMAS J. DOWNEY, New York
DON J. PEASE, Ohio
KENT HANCE, Texas
CECIL (CEC) HEFTEL, Hawaii
MARTY RUSSO, Illinois

GUY VANDER JAGT, Michigan
BILL ARCHER, Texas
BILL FRENZEL, Minnesota
RICHARD T. SCHULZE, Pennsylvania
PHILIP M. CRANE, Illinois

RUFUS YERXA, *Professional Staff*
MARY JANE WIGNOT, *Professional Staff*
FRANKLIN C. PHIFER, JR., *Professional Staff*
JANET NUZUM, *Professional Staff*
GEORGE J. WEISE, *Professional Staff*
JOANNA SHELTON, *Professional Staff*

LETTER OF TRANSMITTAL

SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C., March 29, 1984.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Longworth Building, Washington, D.C.

DEAR MR. CHAIRMAN: I am pleased to transmit to you this report on the Committee on Ways and Means trade mission to Eastern Europe. The report is divided into country reports and contains a section which highlights issues and conclusions.

Between November 26 and December 15, 1983, the Subcommittee on Trade conducted an extensive factfinding mission through the countries of Central and Eastern Europe. Four Members of the Subcommittee on Trade participated, including Mr. Jones, Mr. Conable, Mr. Frenzel, and me. In addition, Mr. Sander M. Levin, a Member of the Committee on Banking, and Mr. Douglas K. Bereuter, a Member of the Committees on Foreign Affairs and Banking, joined our delegation.

I feel that this is one of the most significant trips the Subcommittee on Trade has taken in many years. Nearly 120 million Europeans live in this area of the world, stretching from Poland in the north down through the Balkans in the south. These people were partially separated from European and Western influence by decisions made in the concluding days of World War II. This division of Europe is an unnatural alignment and has severely distorted its economic and cultural ties. This separation has heightened world tensions and depressed world commerce.

The delegation visited the German Democratic Republic, Czechoslovakia, Hungary, Romania, and Bulgaria. All are members of the Warsaw Pact and have state-directed economies. The delegation also visited West Berlin and Vienna, Austria, cities which play an integral part in East-West relations and trade. Finally, the delegation concluded its mission in Turkey, a strategic NATO ally of the United States. With its expanding population and rapidly developing economy, Turkey warrants closer congressional attention.

Prior to our departure, Members and staff prepared extensively for the mission. This included briefings by Administration officials and experts (Commerce, State, USTR, CSCE), working breakfasts with Eastern European Ambassadors and diplomats, and a thorough review and discussion of briefing materials supplied by the various agencies. We also utilized the international radio broadcasting services of the Voice of America to communicate with the people of the region and support our mission in Eastern Europe.

In each capital, the delegation met with high level government, party, and industry leaders. Since we believed that travel outside these cities would be important in providing exposure to a wider spectrum of life and economic conditions, the delegation traveled by bus through all the countries except Bulgaria and Turkey. Travel by bus not only provided the delegation with a forum for concentrated briefing sessions and discussions with U.S. Embassy and host country diplomats, but also enabled us to meet with local officials and visit small towns, farms, and factories that would otherwise not have been possible. The delegation found this most beneficial in view of the vast differences between the countries.

The primary purpose of our mission was to examine opportunities for improving commerce and trade with the Eastern bloc countries. As you know, over the years, the Subcommittee on Trade has exercised legislative and oversight jurisdiction over the provisions of the trade laws with respect to the application of nondiscriminatory most-favored-nation (MFN) trading status to nonmarket economy countries. At the present time, Hungary and Romania are the only Eastern European countries which receive MFN tariff treatment (as you know, Poland's MFN status was indefinitely suspended by the President in October 1982). Other Eastern European countries may become candidates for extension of MFN status in the future. Since these nations have the potential of becoming important trading partners, they warrant the close attention of the Subcommittee. The delegation agreed unanimously that it is important to heighten congressional understanding of our relations with Eastern Europe and to seek improvements in East-West economic and trade relations.

Although our trade mission had been planned several months in advance, our visit coincided with the U.S. deployment of Pershing II and Cruise Missiles in Western Europe. The delegation viewed the events as an historic opportunity to express our concern that trade relations should not suffer in these circumstances. The East European governments are clearly disturbed by deployments from both sides, and are very interested in concrete negotiations to reduce the number of Soviet SS–20s deployed as well as NATO intermediate range forces. Also, the governments seemed to welcome the opportunity to address areas of possible bilateral agreement, especially trade and investment, that could serve to offset tensions in the foreign policy arena.

This is an unprecedented period in East European affairs: Fear of East-West conflict has increased interest in arms control as well as trade negotiations with the West, while Soviet influence in the region has decreased because of the leadership changes in the U.S.S.R. Through increased commerce, we may not only encourage beneficial economic and political flexibility in Eastern Europe but serve our own business interests. Unfortunately, instead of being the most competitive of the Western industrial countries in the Eastern trade with a share commensurate to our size and comparative advantage, we are the least competitive and the least involved in East-West commerce.

Failure to realize the full potential of U.S. trade in the region was especially evident during the visit to Vienna. Those U.S. businesses active in the region labor under unilateral U.S. export li-

censing restrictions that serve to disrupt legitimate trade and place U.S. exporters at a disadvantage compared to their Western competitors. The Foreign Commercial Service (FCS), whose primary function is trade promotion, often is tapped to monitor technology sales and to investigate possible illegal activities. Although widespread violations have not been demonstrated, a disproportionate amount of time seems to be focused on export controls. In addition to the disruption of trade resulting from confusing and unpredictable licensing procedures, trade promotion assistance for legitimate businesses is forfeited to a preoccupation with export restrictions.

Because of the tense time in East-West relations, the delegation was pleased that the visit provided an opportunity for high level government contacts. However, it was discouraging to learn how extremely limited opportunities for critical dialog were, especially at a time when a single, albeit important, issue such as the missile deployments comes to the forefront. There appears to be little differentiation among issues, even when some success is achieved in particular areas. Also, complaints were heard in several capitals that high-ranking officials were not properly received by U.S. officials, a practice which was then reciprocated until diplomatic exchanges came to a virtual standstill. This tended to tie the hands of very able U.S. Ambassadors and to limit critical discussions that would help develop areas of agreement and to more accurately define differences and conflicts.

Although sharing similar political and economic systems, the great diversity of history, culture, and ethnic composition remains in Eastern Europe. U.S. policy toward Eastern Europe has been one of "differentiation," i.e., treating each Eastern European country as separate and distinct entities. At the same time, this policy supports the national aspirations, encourages foreign policy independence, and stresses the observance of human rights of each country. While government control remains firmly in the hands of Communist Parties throughout Eastern Europe, we found many signs of economic decentralization and elements of the market economy.

Generally, the delegation found that the countries of Eastern Europe are beset with similar economic problems—large hard currency debt, slow economic growth, cutbacks in imports, and energy and raw material dependence on the Soviet Union. Trade with the United States is also declining. A negative U.S. balance of $82.2 million was the largest of three consecutive deficits recorded in trade with the Eastern European countries (including Poland).

The situation in Romania is particularly acute. Romania has embarked on a severe austerity program as a means of reducing its $10 billion hard currenty debt. In addition to a drastic cutback in imports (both raw materials and consumer goods) and a push to increase its exports, the Romanian Government has ordered a 50 percent cut in the use of electricity.

Along with its security interest, the United States has a growing economic interest in Eastern Europe, despite the negative trade balances. It is clear that the United States is well behind many Western industrialized nations, especially West Germany, Japan, and most recently Canada, in economic relations with Eastern Europe. These key U.S. competitors have a strong presence in East-

ern Europe and are aggressively marketing their products throughout the region. The Japanese and the West Europeans provide extensive government-supported export credits and/or insurance to promote their exports worldwide including to Communist countries. The Federal Republic of Germany has a special trading relationship with the German Democratic Republic. Our allies, in general, extend nondiscriminatory (most-favored-nation) tariff treatment to exports of Communist countries.

The region represents a limited, but relatively untapped, market for U.S. products, particularly in the areas of agriculture and technology. The interest in expanded trade was reciprocated by the Eastern European leaders with whom we met. However, the potential for growth in bilateral trade is presently limited by U.S. trade and export control restrictions. The lack of most-favored-nation tariff treatment is clearly the major barrier preventing normalization of trade. In addition to making products of these countries noncompetitive in the U.S. market, trade officials in the region believe our trade law discriminates against their countries because of their political system.

The delegation joins me in expressing continued interest in securing passage of H.R. 2770, a bill sponsored by me and other members of the delegation which would extend multiyear MFN to Hungary and the People's Republic of China. We would also be interested in exploring the possibility of including Romania in this category. However, human rights and emigration are areas which cannot be ignored. As we indicated to the various leaders, we expect those governments which desire the benefits of improved relations with the United States to play a constructive role in international affairs and to meet their human rights commitments.

Following our mission, members of the delegation have been in close contact with the Administration. We have discussed our findings and debriefed Cabinet level officials of our views regarding the situation in Eastern Europe. Thus far, we have met with Secretary Baldrige and Under Secretary Olmer of the Department of Commerce, Ambassador Brock, and senior State Department officials. Upon our return, we sent a summary of our findings to Secretary of State Shultz. A similar dialog has been established with officials of the Eastern European embassies in Washington. Through these exchanges, we hope to pursue issues raised during our mission and to develop a further understanding of the problems and potential of East-West trade.

In conclusion, Mr. Chairman, I strongly believe that, in addition to the purely economic benefits of expanding commercial relations with these countries, trade can also be a means of enhancing better political relations and encouraging greater political and economic autonomy for Eastern Europe. Therefore, the members of the delegation intend to urge the Administration to begin a reassessment of current East-West trade policy with these goals in mind.

I hope this report will be of use to you, the full Committee, and the entire Congress in the months to come.

Sincerely,

SAM. M. GIBBONS, *Chairman.*

Enclosure.

MEMBERS OF THE DELEGATION

Hon. Sam M. Gibbons, chairman, Hon. James R. Jones, Hon. Sander M. Levin, Hon. Barber B. Conable, Jr., Hon. Bill Frenzel, and Hon. Douglas K. Bereuter.

Staff.—Majority: Franklin C. Phifer, Jr., and Graciela P. Sullivan. Minority: Thelma J. Askey. Library of Congress: Dr. John P. Hardt, Associate Director, Congressional Research Service (West Berlin, GDR and Czechoslovakia).

CONTENTS

	Page
Letter of transmittal	III
Members of the delegation	VII
Background	1
Highlights and conclusions	3
West Berlin	7
Overview	7
I. United States-West Berlin trade relations	8
II. Highlights of meetings with Berlin officials	9
III. Prospects for improved commercial relations with Berlin	10
Conclusions	11
German Democratic Republic (GDR)	13
Overview	13
I. United States-GDR trade relations	13
II. Highlights of meetings with GDR officials	16
III. Prospects for improved commercial relations with the GDR	18
Conclusions	20
Czechoslovakia	22
Overview	22
I. United States-Czechoslovakian trade relations	24
II. Highlights of meetings with Czechoslovak officials	27
III. Prospects for improved commercial relations	28
Conclusions	32
Austria	33
Overview	33
I. United States-Austrian trade relations	33
II. Meetings with Embassy officials and business leaders	36
III. Prospects for future commercial relations	39
Conclusions	41
Hungary	43
Overview	43
I. United States-Hungarian trade relations	45
II. Highlights of meetings with Hungarian officials	48
III. Prospects for expanded commercial relations	50
Conclusions	53
Romania	54
Overview	54
I. United States-Romanian trade relations	55
II. Highlights of meetings with Romanian officials	62
III. Prospects for improved commercial relations	68
Conclusions	71
Bulgaria	92
Overview	72
I. United States-Bulgarian trade relations	73
II. Highlights of meetings with Bulgarian officials	77
III. Prospects for improved commercial relations	82
Conclusions	86
Turkey	87
Overview	87
I. United States-Turkish trade relations	87
II. Highlights of discussions	89
III. Prospects for improved commercial relations	90
Conclusions	90

32-693 O - 84 - 2

APPENDIXES

	Page
Appendix A: Subcommittee press release, November 23, 1983, announcing trade mission	91
Appendix B: List of meetings, plant tours, and other visits	92
Appendix C: Economic profile of U.S.S.R., Eastern Europe, United States, EEC, and Japan, 1982	94
Appendix D: Table of hard currency debt of the U.S.S.R. and Eastern Europe	95
Appendix E: Table of status of United States-East European commercial relations	96
Appendix F: Table of membership in international organizations	97
Appendix G: Transcript of press conference statement by Chairman Sam M. Gibbons, Hotel Intercontinental, West Berlin, November 29, 1983	98
Appendix H: Selected articles from the East European press	99
1. Rude Pravo, Prague, Czechoslovakia, December 2, 1983, p. 2	99
2. Scinteia, Bucharest, Romania, December 10, 1983, p. 1	99
3. Turkish Daily News, Istanbul, Turkey, December 15, 1983, p. 3	99
Appendix I: Vice President Bush Speech, text	100
Appendix J: Delegation letter to Secretary of State George Shultz, dated January 12, 1984, reporting on mission and summarizing findings	101
Appendix K: Delegation letter to United States Trade Representative William E. Brock, dated February 21, 1984, concerning West Berlin	108

REPORT ON TRADE MISSION TO CENTRAL AND EASTERN EUROPE

Background

U.S. trade relations toward the nonmarket economy countries of Eastern Europe are presently conducted on a bilateral basis, rather than multilaterally within the General Agreement on Tariffs and Trade [GATT]. U.S. policy through successive administrations has been to deal with East European countries as separate and distinct entities, while encouraging foreign policy independence and the observance of human rights.[1] Consequently, the United States tailors its policies in relations with countries in the region in accordance with these differences. Although U.S. trade with the countries of Eastern Europe remains extremely small in volume and accounts for less than 1 percent of total U.S. trade, bilateral trade has become one of the most important components of our overall relations with Eastern Europe.

Under current law, Romania and Hungary receive nondiscriminatory or most-favored-nation [MFN] treatment with respect to U.S. tariffs and are eligible for government-supported credits from the Export-Import Bank [Eximbank] and the Commodity Credit Corporation [CCC]. Poland's MFN status was indefinitely suspended by the President in October 1982. The United States does not presently extend MFN treatment to the German Democratic Republic (East Germany), Czechoslovakia, or Bulgaria, although all three have expressed a strong interest. Czechoslovakia, Hungary, and Romania are signatories to the GATT. The main economic organization of the Warsaw Pact nations is the Council for Mutual Economic Assistance [CMEA] or COMECON. Six Eastern European countries are members of the CMEA: Poland, Romania, East Germany, Hungary, Czechoslovakia, and Bulgaria.

The absence of MFN tariff treatment has significant trade implications because higher tariff rates generally apply to products imported from countries without MFN status. The Tariff Schedules of the United States [TSUS] provide three sets of duty rates under General Headnote 3. The rates listed in column 1 are the trade agreement rates or MFN rates. The rates listed in column 2 are generally the statutory rates established by the Tariff Act of 1930. These are the higher tariff rates applicable to imports from most communist countries. The rates provided in the third column, entitled "LDDC," are special rates which apply to certain specified least developed developing countries. Further, the lack of access to

[1] Testimony of Mark Palmer, Deputy Assistant Secretary of State for European Affairs, before the House Committee on Ways and Means, Subcommittee on Trade, July 14, 1983. See Hearings, Serial No. 98-22, 1st Sess., at 56 (1983).

credits and credit guarantees causes major difficulties in export financing.

The legal framework for U.S. trade relations with Eastern Europe is set forth in title IV of the Trade Act of 1974 (19 U.S.C. 2431 et seq.). Title IV continues earlier legislative prohibitions on extending trade benefits to Communist countries. Furthermore, section 402 of the act (the Jackson-Vanik amendment) expressly prohibits the extension of trade benefits to Communist countries who deny their citizens the right to emigration. However, the President may waive this prohibition subject to congressional approval, if he determines that the extension of trade benefits would encourage freedom of emigration. The Trade Act further conditions the extension of MFN treatment, requiring that it be extended within the context of a bilateral trade agreement of 3 years duration. Such bilateral agreements can be extended for additional 3-year periods.

The Trade Act waiver authority expires on July 3 of each year. It may be extended on an annual basis upon a Presidential determination and report to Congress that such extension will substantially promote the objectives of the Trade Act's emigration requirement, provided that no disapproval resolution is approved either by the House or the Senate within 60 calendar days after July 3. The Subcommittee on Trade has held public hearings each year since 1976 to review Romanian (and subsequently Hungarian and People's Republic of China) emigration and trade performances.

On June 3, 1983, President Reagan transmitted to the Congress his recommendation that the waiver authority be extended for a further 12-month period and that waivers applicable to Romania, Hungary, and the People's Republic of China [PRC] will substantially promote the objectives of section 402. Although three resolutions to disapprove the extension of the waiver authority were introduced, the Committee on Ways and Means adversely reported them to the House (H. Repts. 98-315, 98-316, 98-317). The House postponed indefinitely their consideration on August 1, 1983.

On April 19, 1983, Congressman Gibbons introduced H.R. 2603, which would accord to Hungary for a period of 5 years (through July 2, 1988) MFN status and access to U.S. credits and credit and investment guarantees without the otherwise mandatory annual review of the waiver authority and, on April 27, also introduced H.R. 2770, applying the same provisions to the People's Republic of China as well as Hungary ("multiyear MFN").[2]

On the other hand, Senator Melcher, on June 9, introduced S. 1444, which would deny MFN status and access to U.S. credit and guarantee programs to nonmarket economy countries that deny religious freedom to their citizens. On February 21, 1984, Congressman Schulze introduced H.R. 4886, which would deny MFN status and access to U.S. credit and guarantee programs to nonmarket economy countries that condone or encourage religious discrimination or which condone or encourage harassment of would-be emigrants. No action has been taken on these bills.

---

[2] Cosponsors of H.R. 2770 include Messrs. Jones, Frenzel, and Conable, all members of the delegation. A hearing was held on H.R. 2603 on May 10, 1983, by the Subcommittee on Trade in conjunction with other miscellaneous tariff and trade bills. See Hearings, Serial No. 98-17, 1st Sess., at 901 (1983).

Highlights and Conclusions

I. U.S. COMPETITION FOR EASTERN EUROPEAN TRADE

With respect to the development of East European markets, *all other OECD countries have provided their exporters with advantages in terms of trade facilitation, export financing, market access, traditional trade relationships, and certainty of commercial relations that are superior to those provided by the United States.*

U.S. exporters are generally at a competitive disadvantage throughout the Eastern market. Most OECD countries provide official credits, export financing, and tariff privileges (MFN) to all Eastern bloc countries. Furthermore, the special historical-political relationships between the Federal Republic of Germany [FRG] and the German Democratic Republic [GDR] and between Austria and Hungary add to the West European competitive edge over the United States in trade with the East, as do the traditional intra-European trading relationships. In recent years, the West Europeans have been stepping up their export drives in Eastern Europe. The same is true of the Canadians, who have recently (September 1983) concluded a trade agreement extending MFN and a 3-year grain agreement with the GDR. Moreover, the Japanese maintain a strong business presence in the region.

East European exports to the West continue to increase, although slowly because of the depressed economic climate. Primarily as a result of restrictions on imports, a surplus of $3 to $4 billion for the region was reached in 1983, and the available foreign exchange not used to absorb past debts will provide the basis for further expansion of East-West commercial relations. Further trade growth, however, may be primarily with Western countries other than the United States if the United States remains noncompetitive because of MFN limitations, restrictive licensing procedures and other policies that inhibit U.S. exports.[1]

The United States extends official credits—Export-Import Bank [Eximbank] credits and Credit Commodity Corporation [CCC] credits and guarantees—and grants MFN tariff status contingent upon emigration performance to Eastern bloc countries with which it has trade agreements (i.e., Hungary and Romania). Under these circumstances, trade with both of these countries is comparable to that of other OECD countries, except for U.S. export licensing restrictions. However, market disruptions caused by economic depression coupled with U.S. restrictions on both imports and exports, including the lack of MFN and export controls, severely limit trade prospects for the GDR, Czechoslovakia, and Bulgaria.

---

[1] United Nations Economic Commission for Europe, Geneva, Switzerand, "Economic Survey of Europe in 1982," November 1983.

Serious consideration should be given to further normalization of U.S trade with this latter group of countries. The political and legislative barriers may be difficult in the short run, but if progress is to be made, efforts should be ongoing on a bilateral basis. Also, membership in global economic institutions provides a more stable basis for effective commercial relations, and the United States should be supportive of efforts by East European countries to join the GATT or to participate in the various codes under GATT auspices.

Suggested areas of negotiations toward full trade normalization would be:

Extension of MFN to more East European countries and extension of multiyear MFN to those countries with the most trade potential;

Provision of GSP benefits to East European countries that qualify as developing countries;

Further expansion of export credits: Eximbank and CCC;

Extension of the OPIC program to East European trade;

Discussion of expanded, yet reciprocal, air transport privileges;

Negotiation of shipping agreements and improved reciprocal fishing rights;

Increased scientific and cultural exchanges;

Membership in IMF/World Bank; and

Encouragement and support of East European countries to become GATT signatories.

II. SUPERPOWER ARMS CONTROL AND TRADE POLICY

Improved superpower relations are crucial to improvement in East European stability. Effective steps toward significant arms control is essential for East-West accommodation in all areas, including trade.

East European leaders and populace are deeply disturbed by both Soviet and U.S. deployments. Heightened U.S.-U.S.S.R. tensions restrict their policy options and heighten fears of confrontation. Missile deployments notwithstanding, the United States should develop a continuing dialog on economic, political, and human rights issues. The delegation regrets the need to deploy Pershing II's and Cruise missiles and hopes that an agreement may soon be reached that will allow for the removal of the Soviet SS-20's from their threatening positions in Europe and Asia. The European view—East and West—appears to be that both superpowers should and could make more effective efforts to negotiate arms limitations.

U.S. policy, consistent with the Helsinki Final Act and the most recent Commission on Security and Cooperation in Europe [CSCE] update at Madrid in September 1983, is an appropriate policy guide for dealing with Central European countries. The Conference on Confidence and Security-Building Measures and Disarmament in Europe (CDE meeting) held recently in Stockholm is an example of an appropriate forum for developing an improved basis for arms negotiations in preparation for the resumption of formal negotiations. As both the East and West are parties to these agreements, the United States views the commercial principles in "Basket II"

and human rights principles in "Basket III" as international guidelines based on mutual obligations and commitments.

The consultative process among Western allies should be revitalized in an attempt to reconcile the substantial differences between the United States and its allies on most arms control and trade issues with the East. Serious efforts towards arms negotiations should be pursued on the basis of a new Alliance consensus.

III. U.S. EASTERN EUROPEAN TRADE POLICY AND DIFFERENTIATION

The policies and practices in each East European country differ as compared to international and American norms of behavior. The U.S. Government may be able to influence these countries toward closer conformity with acceptable norms, if the United States reinforces both internal and international policies of East European countries on an individual basis and under clearly established criteria.

The East European countries are not monolithic reflections of Soviet policy. The influence of the United States has been effective in encouraging differentiations among the countries. Domestic moderation in human, social, and political rights can be progressively influenced, especially if based on the tenets of international agreements, such as CSCE. Less effective is the encouragement and rewarding of anti-Soviet rhetoric, especially if it appears to supersede conduct of the system of governance and of economic development.

The United States favors policies that enhance the living conditions of citizens of other countries, especially in contrast to expanded military programs, and governments that are more responsive to the human, political, and social rights (including religious freedom) of their populace. Such policies reinforce America's longstanding policy of normal and nondiscriminatory trade relations.

By clearly establishing the criteria of bilateral relations on the basis of international agreements accepted by both countries, dialog to resolve outstanding issues (family reunification, dissent, emigration barriers, the emigration tax, procedures for obtaining exit visas, travel visas, relative visitations, et cetera) may take place without eliciting the standard Eastern objection of "intervention in domestic affairs." [2] Moreover, an American policy option of providing favorable trade benefits is more likely through improved Eastern country responses. By focusing primarily on the appearance of foreign policy independence from the U.S.S.R., and "capitalistic" efforts at domestic liberalization in economic reforms in Hungary and Bulgaria, the United States seems to pose problems for those countries which it praises and while sometimes rewarding those countries less deserving of American support. United States criticism of Bulgaria, Czechoslovakia, and the GDR, based on their pro-Soviet positions, is a source of special irritation in those countries, particularly to the extent they call for unattainable foreign

[2] Vice President Bush's speech in Vienna in September 1984 caused considerable concern in Eastern Europe. Accolades to Hungary and Romania pose two problems: (1) "They do not toe the Soviet lines," and (2) "They have either open societies or non-belligerent foreign policies." Using opposition to Soviet policy as criteria for U.S. acceptance puts those countries in a very difficult situation. They must officially reject this policy line as anti-Soviet. To credit Romania in this way is not accurate.

policy independence from the Soviet Union rather than for adherence to widely accepted norms of performance and international agreement.

While the Reagan administration has reaffirmed its commitment to a policy of differentiation, its emphasis on anti-Soviet rhetoric and capitalistic tendencies in the various economies is less productive than the use of U.S. influence to encourage further domestic modernization of their economies and expanded benefits for the consumers. Clarification of U.S. policy and enunciation of it in the CSCE context would be positive and effective. Moreover, an enhanced policy of differentiation would arm U.S. diplomats with more effective tools for individual diplomacy.

IV. ROLE OF WESTERN TRADE POLICY AND EAST EUROPEAN REGIME MODERATION

The domestic policies of each country are different. Each country has some degree of "maneuver" room or independence, especially in domestic economic policy. Western commercial relations may increase maneuvering room and foster regime moderation.

Economic policy and performance offer individual Eastern European countries the greatest opportunity for differentiation from the U.S.S.R. Soviet leaders have recognized the need and appropriateness of different economic mechanisms in the East European countries due to historical, ethnic, and other differences.[3]

Commercial relations provide Western governments with the most effective means of influencing Eastern country policy and performance. Most East European leaders are committed to economic policies of modernization (making their economies more competitive with Western economies in efficiency of production and quality of output) and, to varying degrees, consumerism. Without Western economic ties, the East European countries would be more completely dependent on the U.S.S.R., less able to emphasize modernization and consumerism, and thus more likely to be repressive. Trade has traditionally been considered by many in Western Europe, especially by the West Germans, as among the most effective levers for beneficial political and economic change in Eastern Europe. Leaders of all the countries visited welcomed the visit of the delegation and invited improved commercial relations.

The United States should encourage the leaders of each of the East European countries by its actions, especially in the commercial area. Increased commercial and cultural contacts improve the maneuver room in the Eastern alliance and help promote regime modernization. By being more informed through study and improved contacts, including congressional missions to the area, the United States may improve its interests in the region and encourage movement toward more progressive policies. More exchanges of East-West business, scientific, and cultural groups can further this end.

---

[3] "Soviets Loosen Their Grip on Eastern Europe," Special Report, U.S. News and World Report, Dec. 5, 1983, pp. 35–38.

WEST BERLIN

Overview

The delegation visited West Berlin between November 26 and 29, 1983, and met with Berlin officials and businessmen and U.S. Embassy and military personnel.

Although geographically surrounded by the territory of the German Democratic Republic (East Germany), West Berlin's trade and industry is fully integrated in the economic system of the Federal Republic of Germany [FRG] and the European Economic Community. With a population of 2 million and an annual GNP of $25 billion, West Berlin is still the largest German city and largest German manufacturing center. Under the quadriparitite agreement for postwar Berlin, however, West Berlin is legally not part of the FRG. It is still under the joint jurisdiction of France, the United Kingdom, the Soviet Union, and the United States (the Kommandatura). The United States, Britain, and France exercise responsibility for the three Western sectors of the city. The Soviet Union, for the most part, claims to have turned over to the German Democratic Republic its responsibilities in the Eastern sector. (The Western allies generally do not recognize this action and continue to hold the Soviets responsible for their sector.)

The delegation noted with interest the joint activities still conducted by the Four Powers. The jointly operated Berlin Air Safety Center, located in West Berlin, clears all Western air traffic through three air "corridors" from the West: Hamburg-Berlin; Hannover-Berlin; Frankfurt-Main-Berlin. These corridors are limited areas of air space across East Germany which are the exclusive routes for civilian air traffic to and from West Berlin.[1] The Four Powers also retain joint authority over the prison for war criminals in Spandau. Finally, military vehicles of all Four Powers have the right to conduct patrols in all four sectors of the city.

The political isolation of West Berlin was graphically illustrated to the delegation by an extensive helicopter tour over the expanse of West Berlin. This clearly demonstrated Berlin's small size (186 square miles) and isolation from the West by the formidable 28-mile wall dividing the city in half and by the fortified border encircling Berlin.

The city is heavily dependent on massive financial and economic assistance from the FRG and the city budget is dependent on direct contributions from the Federal Government. According to the State Department, aggregate Federal subsidies to Berlin in 1983 were approximately 13 billion marks ($5 billion), or more than 5 percent of

[1] Special customs procedures for ground transport of goods and passengers are guaranteed by the Quadripartite Agreement of 1972. Shipments of merchandise can take place by truck (via four autobahn routes from West Germany), rail, or barge. Merchandise can be shipped sealed and without inspection.

32-693 O - 84 - 3

the FRG budget. These contributions amount to over 50 percent of the city's budget. FRG programs to enhance the economy of West Berlin include a 30-percent differential in favor of Berlin residents in income rates, favorable provisions for accelerated depreciation (up to 75 percent in the year the investment is made), a reduced value-added tax rate, and favorable credit terms. Although American business presence in West Berlin is impressive, American investments in the city have never been a match for the massive U. S. investments in the FRG.[2] Finally, about 6,500 U.S. military personnel are presently stationed in West Berlin and often conduct joint exercises with the armed services of the other Allies.

I. United States-West Berlin Trade Relations

Total exports in 1982 were valued at $2.5 billion and over 85 percent of the city's production is currently shipped to West Germany and for export. The largest sector is the electronics industry, followed by food processing, beverages and tobacco, mechanical engineering, chemicals and pharmaceuticals, motor vehicle components and accessories, printing, clothing and apparel. Berlin's exports to the United States in 1982 came to 280 million marks ($115 billion), or 4.2 percent of its total exports; imports from the United States totaled 341 million marks ($140 million), giving the United States a merchandise trade surplus of $25 million.

Because West Berlin has been a full participant in the European Community since its inception, all regulations affecting trade and commercial transactions with the FRG, including the terms of international trade agreements, automatically apply to the city. Tariffs, currency, and exchange regulations are also identical. Since it is integrated in the common market, West Berlin belongs to the customs area of the community and participates in the unhampered goods traffic, the agrarian market, and the trade policy of the European Community. The city also benefits from various EC financial programs and the EC Commission allots funds to Berlin for research and development activities. And the EC regularly participates in international exhibitions and trade fairs held in West Berlin. Finally, West Berlin is included in the direct elections to the European Parliament by a special electoral system and is represented in that body by three deputies.

The delegation noted that Berlin's economy is beset by the same problems which other industrialized nations face. At present, the unemployment rate is higher than that in the FRG and, according to U.S. Mission data, 1983 was the third year in a row without real growth. West Berlin is also suffering from an aging and declining population due to an exodus of young people in their late twenties to early forties.

Recently, however, the rapid development of service industries, the intensive growth of high technology companies, and the opening of one of the largest and most modern convention centers any-

[2] Gillette has just announced plans to move its sales and marketing unit from Frankfurt to Berlin and an ITT subsidiary, Standard Elektrik Lorenz, intends to construct a new Berlin software center, adding to the core of some 17 U.S.-owned manufacturing affiliates, 13 sales offices, and 7 service organizations. Recently Ford of Europe established a plastic parts plant in Berlin and the Bell Corporation of Indiana is building a steel can plant.

where has enabled West Berlin to make great strides in attracting industry and keeping its economy competitive in the 1980's. Moreover, the presence of a highly skilled and educated labor market and an unusual concentration of scientists and technological experts impressed the delegation as great potential for further economic development.

Over 25,000 persons work in some 180 research and development [R&D] institutions (accounting for almost one-tenth of Germany's total R&D personnel). These include such well-known institutions as Hahn-Meitner for Nuclear Research, Heinrich Hertz for Telecommunications, Fraunhofer for Computer Aided Manufacturing and Design, Max Planck for Molecular Genetics, BESSY Berlin Electron Synchrotron Radiation, and the Federal Institute for Material Testing. While Berlin's wage rates and fringe benefits correspond favorably to West German averages, there is an unbalanced labor force: highly skilled Germans and low-skilled Turkish workers. Although the enormous influx of Turkish workers provides a base for low skilled manpower, the high urban concentration has caused unusual demands on Berlin's social infrastructure. Berlin now has one of the largest Turkish population centers outside of Turkey's major cities.

The delegation noted that the West Berlin government is pursuing aggressive strategy to attract high technology industry and investment to the city. The program includes significant tax advantages, start-up assistance, establishment of special agencies for transfer of technology to industry, and vocational training for high technology. A group of commercial banks recently departed from normal practice and established a venture capital corporation with the city government to provide high-tech seed money. The delegation was favorably impressed with the efforts of the city to attain its goal of becoming Europe's leading high-technology center.

II. Highlights of Meetings With Berlin Officials

The delegation met with West Berlin government and business leaders, including the Governing Mayor, Dr. Richard von Weizsaecker; Finance Senator Gerhard Kunz; and Mr. Robert Layton, Commissioner for Economic Development; and others. The Berlin Economic Development Corporation is a private, nonprofit organization set up to identify and attract potential companies to Berlin and to promote Berlin's trade incentive measures. In these discussions, members of the delegation emphasized that the trip's purpose was to seek ways to improve trade with Central and Eastern Europe, while preventing the missile deployment issue from worsening economic relations. The issues discussed ranged generally from trade to defense.

Despite the East-West political tensions caused by the deployment of Pershing and Cruise missiles in West Germany, it was clear to the delegation that both West and East Germany are vitally interested in improving cooperation, including economic ties, with each other. The recent no strings $400 million private bank loan guaranteed by the FRG to East Germany was described by West Berlin officials as a good transaction. It was pointed out that full security for repayment was made and that it was a bona fide

commercial arrangement with no political concessions involved. Further, the delegation learned that trade between the two countries has improved, reaching a record $3 billion in the first half of 1983. West Germany's exports to the East were up almost 33 percent in this period, while imports grew only 2 percent.

The delegation's meeting with the governing mayor, Dr. Richard von Weiszaecker, coincided with an announcement by West German Chancellor Kohl naming the mayor as the Christian Democratic Party candidate for FRG President. The delegation was pleased to learn that the mayor is very much a supporter of dialog with the East and, as a former member of the German Bundestag, is also a strong supporter of Atlantic cooperation.

Dr. von Weiszaecker mentioned negotiation of mutual missile withdrawal, a return to emphasis on the Harmel report with its twin emphasis on defense and détente. He supported the role of trade in improved Western relations with the U.S.S.R. and enhanced FRG–GDR relations. The mayor observed that an important element of East-West German trade is the "swing" credit arrangement, whereby the FRG extends to the GDR a large interest-free credit. This credit, which amounted to approximately $300 million in 1983, can only be used to finance intra-German trade. As for another no-strings loan to the GDR, the mayor believed that the FRG would want to obtain substantial political concessions. While many West Germans were not optimistic that concessions could be extracted from the GDR, they did not believe that such a loan would be made soon. However, the sharp increase in emigration from the GDR to the FRG may be just such a concession (see GDR section).

The delegation learned that contacts between official representatives of West and East Berlin have intensified in recent years, leading to agreements improving postal and telephone service, waste disposal, and transit maintenance. Berlin officials also noted that the East German Government has recently taken other steps to improve ties with West Germany: The announcement of its intention to start dismantling some of the estimated 54,000 automatic firing devices mounted along its 750-mile border with West Germany and the waiver of the obligatory currency exchange requirement for children visiting the country from the West. Since 1980, when East Germany doubled the hard currency exchange for crossing the border, the number of West German visitors to East Germany has fallen considerably. Many West Germans have relatives in the East and this action will lift the exchange requirement for children under 15 (who account for about 15 percent of West German visitors), thereby making it somewhat less costly for an entire family to go to the East.[3] In the first half of 1983, private visits from the West to the East rose nearly 7 percent.

III. Prospects for Improved Commercial Relations With Berlin

Berlin acts as an important link in trade between East and West. Many West Berlin firms have experience in doing business with

[3] Under the terms of a visitor agreement between West Berlin and the GDR Government, all West Berliner residents may now visit East Berlin and the GDR for a total of 30 days a year, with additional visits being allowed on urgent family matters or with official invitations.

the GDR. Moreover, a large number of branch offices and service departments of West German, West European, American, and Asian enterprises conduct their business with Eastern Europe from Berlin offices, making West Berlin a strategic business location in Central Europe.

Development of a special electronics center in Berlin similar to that in "Silicon Valley" in California was discussed and supported by the delegation. The members pointed out that the Berliners' efforts to attract high-technology investment in the electronics field would be greatly assisted if the European Economic Community would reduce tariffs on electronic components, currently at 17 percent. The delegation pointed to a U.S. agreement, strongly supported by U.S. electronic companies, recently negotiated with the Japanese to reduce to zero duties in this area (see appendix K, delegation letter to Ambassador Brock).

Supply systems for electronics companies are unique, it was noted, in that they assemble finished products composed of a wide variety of parts produced in various parts of the world with primary concern for quality and production costs but little concern for cost of transportation. They have to be able to move components between subsidiaries without encountering duties and other barriers to free movement. Thus, if Berlin were to become an experimental high-tech laboratory, duties would have to be lowered for electronic components, as a means of attacting high-technology investment. The need for further concentration of intellectual and scientific capability in Berlin was emphasized and the need to further enhance that "brain power" nexus of an electronic center. Some American cooperation in scheduling international meetings to highlight the unique role of Berlin as an electronic center was also suggested.

Finally, in order for West Berlin to become West Germany's, and perhaps Europe's, leading high-tech center, the city needs to make Western companies more aware of the significant advantages that Berlin has to offer. The application of Allied Law 43, which restricts production of goods with possible military uses is another potential barrier. The gray area surrounding this law may deter high-tech companies from setting up production facilities in Berlin and its interpretation needs to be clarified.

Conclusions

The United States has a special responsibility for West Berlin and should continue to support attempts to strengthen its economy, improve its industrial base, and promote the free flow of trade and investment. Because of its isolation, West Berlin is particularly vulnerable to protectionism.

The delegation noted that Berlin has an emerging high technology industry and work force and has the potential to become a leading center in Europe for advanced electronic technology. The European Community currently maintains a 17-percent tariff on electronic components imported into Berlin. The delegation believes that this tariff barrier operates as a disincentive to high technology trade and investment with Berlin. Therefore, we urge our trade negotiators to seek a reduction in the tariffs on semicon-

ductors and other electronic components for Berlin as a means of attracting new high technology investment to the city.

West Berlin is a leading center for trade with the German Democratic Republic. It is also part of the special trading relationship between the FRG and the GDR. Since the delegation is strongly supportive of attempts to increase contacts and trade with the East, we believe that West Berlin can play a key role in the current improvement in overall East-West German relations.

GERMAN DEMOCRATIC REPUBLIC (GDR)

Overview

On November 28, 1983, the delegation—the first U.S. congressional delegation to officially visit the GDR—held discussions in East Berlin with GDR officials. The delegation continued its tour through the GDR until December 1, visiting the East German towns of Wittenberg, Meissen, and Dresden.

East Berlin, which has been incorporated as the capital of the GDR, is today the seat of nearly all GDR ministries and central government and party administrative offices. Although East Berlin has over 1 million people, it is roughly half the population of West Berlin. East Berlin's legal status is interpreted differently in East and West. While the Western powers and the FRG maintain that the Four Power status still applies to the entire city, the Soviet Union and the GDR want to see the Four Power rights and duties limited to the West as much as possible.

Except in the economic sphere, relations between the United States and the GDR have developed slowly since the establishment of diplomatic ties in 1974. The GDR is a leading industrial nation and is generally considered to have the highest standard of living in Eastern Europe.[1] However, the GDR continues to be restrictive in its emigration practices, manifested by the presence of the Berlin Wall and other fortified borders. Nearly 400,000 Soviet troops are stationed in the GDR. Western influence is prevalent, however, and an estimated 70 percent of East Germans watch West German television. As with other Western visitors, the delegation's access to East Berlin from the American sector was through the Berlin Wall crossing point known as "Checkpoint Charlie."

I. U.S.-GDR Trade Relations

The delegation found slow growth in the GDR economy and falling bilateral trade. Moderate economic growth in 1980 and 1981 (2.2 and 2.4 annual GNP growth, respectively) fell to 0.5 in 1982 due to negative agricultural performance; growth was revived in 1983 to 4.3. The ambitious growth plan for 1984 of 4 percent per annum would be the most rapid growth in CMEA if attained. However, projected increases in military spending for defense modernization and the costs of Soviet deployment of new medium range missiles in the GDR may retard further growth.[2]

The overall U.S. commercial relationship with the GDR is the least developed of all American bilateral relationships in Eastern Europe, with the possible exception of Czechoslovakia. Because of

---

[1] See Appendix C, Economic Profile of USSR, Eastern Europe, 1982.

[2] Leslie Colitt, "East Germany Again Aims for High Economic Growth," Financial Times, Dec. 9, 1983.

the political obstacles to normalization, the United States has no bilateral trade agreement with the GDR. Moreover, there is no government-to-government economic commission, GDR exports to the United States do not enjoy MFN tariff treatment, and U.S. exports to the GDR do not qualify for U.S. Government-backed credits or financing. The latter, combined with the restrictive U.S. export licensing policy and the GDR's historic reliance on West Germany as a major supplier of nonagricultural products, makes the GDR the smallest market for American manufactured goods in Eastern Europe.

About one-third of the GDR's trade is with the U.S.S.R. and another third is with the other East European countries. The largest single trading partners are the U.S.S.R., Czechoslovakia, Poland, and the FRG. Trade with Communist and non-Communist countries consists generally of exporting manufactured goods and importing basic materials. The GDR has benefitted greatly from a special trade relationship with the FRG. This intra-German trade arrangement has compensated partly for the GDR's loss of its traditional markets and sources of raw materials in the West.

UNITED STATES-GERMAN DEMOCRATIC REPUBLIC TRADE

[In millions of dollars]

	1981	1982	1983
U.S. exports	295.6	222.7	138.9
U.S. imports	44.7	51.8	56.9
Trade turnover	340.3	274.5	195.8

Source: U.S. Department of Commerce.

Between 1980 and 1983, the United States had a favorable balance of trade due largely to agricultural exports of $453, $284, $204, and $117 million, respectively. U.S. nonagricultural exports and imports for the GDR were generally not significant, for example, 10 percent or less of total U.S. exports. Over the last 2 years, U.S. exports to the GDR dropped dramatically from $477 to $139 million in 1980 and 1983, respectively, due primarily to a steep decline in U.S. agricultural sales to the GDR. Yellow corn sales, the chief U.S. agricultural export, fell to $82.9 million in 1983 from $331.7 million in 1980. U.S. imports from the GDR, primarily pneumatic tires, chemicals, and printing presses, grew from $43 million in 1980 to $57 million in 1983, according to the Commerce Department. The 14-to-1 trade advantage historically held by the United States with the GDR has fallen to a 2-to-1 advantage in 1983.

U.S. grain sales, particularly corn, suffered serious setbacks throughout the East European markets in 1983. The U.S. International Trade Commission has indicated that one of the major factors causing the drastic reduction in U.S. corn sales was the exceptionally good grain harvest in the region in 1982, thereby creating exceptionally high initial stocks in 1983.[3] Other factors in the de-

[3] U.S. International Trade Commission, 36th Quarterly Report to the Congress on Trade Between the United States and the Nonmarket Economy Countries, July-September 1983, USITC Pub. 1468 (December 1983).

cline were the perennial shortage of hard currency in the area and a stabilization and improvement in the use of grain for feedstock. The particularly strong corn harvest in Romania allowed for exportation to East Germany, where the substitution of Canadian barley for corn as a feedstock reduced demand.

The delegation believes a further reason for the reduction in U.S. grain exports to the GDR is a shift of their purchases to Canada. In September 1983, the Canadian Agricultural Ministry announced a Canadian-GDR 3-year grain agreement and Canadian-GDR trade agreement. This agreement effectively shifts German grain trade to America's northern neighbor. The specifics of the Canadian agreement released to the press September 9, 1983, are as follows:

(1) Three-year grain agreement, 1 million tons annually (wheat-barley);

(2) Trade agreement, MFN, and full Canadian Wheat Board credit guarantees for all agricultural contracts at market rates.

The delegation also believes that the GDR would like to negotiate a bilateral trade agreement with the United States in order to obtain most-favored-nation [MFN] tariff privileges, gain normal access to the U.S. market, and bolster its political legitimacy. MFN is especially important to the GDR since most GDR exports to the United States are manufactured goods, which bear higher column 2 duties. The delegation strongly believes there is a potential for significant future growth in bilateral trade. Some experts believe that East German products such as machine tools, optical equipment, and chemical products would be highly competitive in the U.S. market with MFN.

At present, normalization of commercial relations is stymied directly by the GDR's human rights record, and indirectly by its failure to make progress in settling official United States and separate Jewish property claims. The human rights record cannot easily be remedied by settlement of outstanding individual, family, or other individual human rights issues due to the enduring presence of the Berlin Wall, effectively designed to keep the whole population of the GDR within its confines.

The delegation notes that the GDR forbids both free emigration and foreign travel. Although East Germans can travel freely within the country, they are not allowed to change their residence without permission from the Government. Foreign travel is also strictly controlled. Accordingly to the Department of State, obtaining permission to travel to other Warsaw Pact countries, except Poland, is relatively easy, but most East Germans are not allowed to travel to non-Communist countries for private or nonofficial reasons until they reach retirement age (60 for women, 65 for men).[4] The sector line between East and West Berlin and the border between East Germany and the FRG are fortified by an array of lethal devices designed to prevent East Germans from going to the West. Beyond the physical danger involved, any attempt to cross these boundaries without permission constitutes a crime punishable by up to 8 years in prison.

---

[4] Country Reports on Human Rights Practices for 1983, submitted to the Congress by the Department of State, February 1984.

Recently, however, some Western observers and press reports have pointed to a relaxation of travel restrictions and a turn to the West for more credit, possibly due to the economic pressures of the GDR and the desire to enhance its human rights image. In fact, in February, East Germany permitted a dramatic increase in the daily number of legal emigrants to the West linked presumably to improved commercial and political relations.[5] A report by the Washington Post stated:

> Western diplomats in Bonn and East Berlin said it is unclear whether the more relaxed trend in emigration reflects a permanent change in policy. For the moment, it seems to be part of the Honecker government's desire to foster good will to revive detente and reap the economic benefits of expanded trade and financial contacts with the West.[6]

The delegation views this as a positive sign and strongly urges the administration to use this opportunity to reconsider our trade policy toward the GDR.

II. Highlights of Meetings With GDR Officials

The delegation met with Foreign Minister Oskar Fischer and First Deputy Trade Minister Gerhard Beil to discuss possibilities for improved trade and other current issues of bilateral interest. Generally, they indicated to the delegation considerable interest in improved bilateral contacts on all levels, including commerical, cultural, and scientific. A highlight of the visit to East Berlin was the unusually high level attendance of GDR officials at the Ambassador's reception, including two Politburo members, Gunter Mittag, a senior economic policymaker in the Politburo, and Horst Sinderman, President of the Volkskammer (Parliament). At this event, members of the delegation felt that the GDR signaled its continuing interest in trade with the United States, notwithstanding broader East-West tensions. The delegation, for its part, expressed its desire to find practical and concrete steps toward advancing trade, and, at the same time, made clear American concerns over GDR political and human rights policies.

While the official concerns over U.S. Pershing II and Cruise missile deployments were registered in these discussions, the tone was mild. The delegation was aware that criticism in the GDR had been made of both Soviet and U.S. deployments. The Protestant Bishop in the GDR has registered such a public complaint that had been reported in the official party paper Neues Deutschland. The GDR Government has tried to show solid public approval of Soviet plans to deploy nuclear weapons in East Germany, including the staging of huge rallies. However, U.S. diplomats noted that East German Communist Party dailies have run letters to the editor voicing concerns over the new Soviet weapons on their territory. Other signs of an unofficial "peace movement" are visible in GDR, consisting of

---

[5] See, e.g., Washington Post, Feb. 25, 1984, p. A1, "East Germany Boosts Exit Permits;" Business Week, Feb. 20, 1984, p. 46, "Leaner Times are Pushing East Berlin Closer to Bonn"; Washington Post, Feb. 21, 1984, p. A1, "East Germany Shows Greater Independence;" Financial Times, Feb. 2, 1984, "U.S. Views East Germany as Good Credit Risk."

[6] Washington Post, Feb. 25, 1984, p. A1.

a variety of independent groups organizing peace forums and petition drives.

Most recently, the East German church groups have expressed reservations about the nuclear arms buildup and have become a shelter for the antinuclear campaign.[7] This activity coincides with the state-sanctioned celebration of the 500th anniversary of Martin Luther's birth last year and has provided the backdrop for renewed pride in German history, buildings and towns, such as in Wittenberg, home of Luther's church. The delegation's visit to Wittenberg pointed up the important role played by the church, which has recently begun to attract a growing number of young people and has been a haven for German cultural revival.

A wide range of outstanding policy and commercial issues were discussed with Trade Minister Beil. Although Dr. Beil stressed the importance of the GDR-Canadian trade agreement and indicated that the decline in trade with the United States had been the result of purely economic decisions by the GDR. He claimed that the GDR needed to maintain balanced trade with its trading partners, but stated that this was impossible as long as the U.S. imposed "30–40 percent tariffs" on GDR exports. He further indicated that many good offers from U.S. companies had to be passed up due to the inability of the GDR to sell in the United States. Congressman Jones pointed out the relationship between politics and U.S. trade policy. He mentioned that supporters of improved U.S.–GDR trade relations would find their task much easier if the GDR toned down its political rhetoric against the United States.

Members emphasized to the Trade Minister the importance which the Subcommittee on Trade attaches to the GATT as an international trade body. The delegation noted that the GATT, although imperfect, gives order to the world trading system. Since the GDR is not a contracting party to the GATT nor has acceded to any of the nontariff codes negotiated during the Tokyo Round, the delegation urged GDR to consider membership or observer status in GATT.

The special relationship between FRG–GDR noted above makes the GDR a de facto member of the Common Market. As some of the U.S.–GDR trade goes through "inter German" channels, bilateral commercial relations are understated. According to the Commerce Department, there have been large discrepancies between U.S. and GDR trade statistics in recent years. U.S. statistics have understated U.S. exports and sales to the GDR, especially where U.S. export statistics did not take into account transshipments of grain shipped through FGR ports. The GDR maintains that this methodology gives an inaccurate picture of the importance of the GDR as a market and trading partner. Commerce Department officials also reported that another contributing cause to the discrepancies is the GDR practice of including transactions with U.S. offshore subsidiaries in totals of direct imports from the United States.

The dramatic drop in U.S. grain exports to the GDR in the last several years will significantly lessen these discrepancies in U.S.

---

[7] "East German Party Finds New Hero in Martin Luther," the Washington Post, Nov. 10, 1983. See also the Washington Post, Dec. 20, 1983, p. A18.

export versus GDR import statistics. GDR officials reduced actual 1982 and estimated 1983 grain imports directly from the United States close to zero.

The delegation had the privilege of visiting the city of Dresden, an industrial city of about 500,000 people, located some 150 miles southeast of Berlin into East Germany. Although heavily damaged during World War II, many of Dresden's architectural masterpieces, dating from the 18th century, have been restored. Meetings with the deputy mayor of Dresden, local party leaders, and cultural officials gave broader political and cultural emphasis to potential ties. These officials stressed the importance of cultural exchanges with the United States and noted the historic importance of the Zwinger collection, visited by the delegation in Dresden.

III. Prospects for Improved Commercial Relations With the GDR

Prospects for U.S. exports will not improve this year as the GDR reduces its foreign trade growth rate and also shifts away from the United States as a prime grain supplier. According to the Department of Commerce, the purchases the GDR does make will be geared to fulfilling plan targets and to supplying export industries. Companies able to provide equipment and technology for more efficient energy utilization, especially lignite, may find opportunities.

According to Foreign Agriculture Service (FAS) data, U.S. agricultural exports to the GDR in fiscal year 1983 amounted to $104 million ($117 million for calendar year), including $83 million of corn, $6 million of wheat, $5 million of barley, and $4 million of sunflower seed. That total agricultural export figure is less than half the $226 million of agricultural products exported in fiscal year 1982, and marks the third consecutive year in which U.S. shipments have declined from a peak of $524 million in 1980. The decline in imports from the United States has been attributed by the GDR to its inability to secure financial credit.

The FAS also indicated that for several years an "informal understanding" on grain trade between the United States and the GDR called for the GDR to purchase 1.5 to 2.0 million metric tons of grain annually and to consult on a regular basis. However, the GDR has indicated that it no longer considers the "understanding" operative. In fiscal year 1983, the GDR imported only 826,000 metric tons of grain from the United States. The Canadians seem to have effectively shifted the U.S. grain trade with the GDR to Canada. In arranging a 3-year grain agreement—the GDR's first multiyear grain agreement with the West—they have also granted the GDR MFN status and have offered full agricultural credit guarantees.

The delegation noted several outstanding issues in the context of improving commercial relations:

Trade issues: MFN

The Jackson-Vanik amendment to the Trade Act precludes the extension of MFN tariff status and U.S. Government-supported export credits to nonmarket economy countries that deny their citizens the right to emigrate (section 402 of the Trade Act of 1974).

The GDR has so far rejected any connection between the granting of MFN or U.S. Government credits to free emigration and refused to give assurances. GDR officials characterize U.S. refusal to extend MFN and credits as a barrier to trade, and note that the Helsinki Final Act recommends elimination of such barriers.

Claims issues

(1) *Official U.S. claims.*—Progress in settlement of these claims is basic to normalizing bilateral relations. When diplomatic relations were established in 1974, both sides agreed to negotiate a settlement of outstanding U.S. property claims, most of which resulted from expropriation after World War II. Adjudication was completed in May 1981. The U.S. Government is seeking settlement of $78 million (plus 6 percent interest) payable as a lump sum while the GDR seeks to settle the claims on a case-by-case basis. Two formal rounds of negotiation, in January 1982 and June 1983, ended inconclusively.

(2) *Jewish claims.*—The Conference on Jewish Material Claims [CJMC] is seeking $100 million recompense on behalf of Jewish victims of Nazism world-wide, an effort which the U.S. Government supports and has offered its good offices to help effect. In 1976, the GDR offered a token $1 million settlement, which the CJMC rejected. The CJMC has recently been assessing the merits of a repayment plan suggested by the GDR.

Doing business with the GDR

The present bilateral economic climate also operates as a barrier to increased trade. The GDR's commitment to cut imports and the large hard currency debt servicing requirements are holding the GDR to a stringent economic program, thereby keeping expenditures to a minimum (except for grain and foodstuffs). In the manufacturing sector, the Commerce Department reports that the most promising U.S. export possibilities include machinery and transportation equipment, chemicals, and instrumentation. Moreover, due to the credit situation, U.S. companies selling in the GDR market often have to negotiate and accept countertrade or barter arrangements.

Pending resolution of the issues and restrictions, the delegation notes the following institutional arrangements that tend to facilitate bilateral commercial relations.

Company representation

Since GDR practice prohibits the establishment of equity-participation or other forms of joint ventures with Western firms or organizations, there is no U.S. involvement in the GDR. Further, no U.S. companies are currently involved in major industrial ventures with GDR partners. Limited trade opportunities do exist for U.S. firms as subcontractors in West European-GDR plant construction projects. Although many United States and Western firms have offices in West Berlin, from which they cover both East Berlin and the GDR, three U.S. companies—Dow, Levi-Strauss and Honeywell—do have business offices in East Berlin. In addition to an Economic/Commercial Section in the Embassy, the GDR maintains a commercial office in New York City where representatives from

WMW Export-Import (machine tools) and Jena Export-Import (bookbinding and printing equipment, textile machinery) promote GDR products in the United States.

While Embassy Berlin is not a Foreign Commercial Service [FCS] post, commercial activities are handled by the U.S. Embassy's Economic/Commercial Section, with support from the Commerce Regional Export Development Office in Bonn. The Subcommittee on Trade strongly supports the use of FCS in different country markets where a commercial presence is necessary to facilitate sales opportunities.

Since 1974, the U.S. Government has participated annually in the Leipzig Spring Fair, one of the oldest and largest international trade fairs in Europe. Until 1981, the United States participated each year at the Leipzig Fall Fair as well. Traditionally, the U.S. Department of Commerce has recruited U.S. companies to exhibit under its sponsorship at one of the Fair's industry pavilions. However, the GDR's commitment to cut imports, coupled with the recent U.S. recession, and general nervousness over East European financial prospects, have discouraged many firms from taking part over the past 2 years. As a result, official U.S. participation in the 1984 spring fair will be in the form of a business facilitation center, a lounge/meeting area accessible at no cost to all U.S. companies who choose to exhibit independently at Leipzig.

U.S.-GDR Trade and Economic Councils

These two separate but parallel Councils were created in 1977 to promote bilateral trade. The U.S.-GDR Council is made up of U.S. firms and associations actively engaged in trade with the GDR. Membership in the GDR Council includes senior officials in the Ministries of Foreign Trade, Science and Technology, and several industrial ministries, the Foreign Trade Bank of the GDR, and selected foreign trade enterprises and industrial combines. The U.S.-GDR Council is the only such U.S. Council with Eastern Europe which is not under the sponsorship of the U.S. Chamber of Commerce. The two Councils have been chaired respectively since their establishment by Jerome Ottmar, president of Amtel, and by Gerhard Beil, GDR State Secretary, and First Deputy Minister of Foreign Trade. Annual plenary sessions have met alternately in Washington and Leipzig/Berlin. Subcommittees on Trade, Science and Technology, and Banking and Finance meet on an ad hoc basis as well. The sixth plenary was held in March 1983 in Berlin/Leipzig and the next is scheduled for the fall of 1984 in Washington.

Conclusions

The delegation is concerned that opportunities for U.S. businesses are diminishing in the GDR, in part due to the considerable presence and involvement of Japan, Canada, FRG, and the EC. *Since Canada's recent conclusion of a trade agreement with the GDR, the United States is the last Western industrialized country to withhold MFN.* The delegation strongly believes it is bad trade policy to rigidly continue nonnegotiable discriminatory tariff treat-

ment and to withhold official credits, including agriculture credits and guarantees. Such a policy only serves to deprive the United States of a key market and further erodes U.S. competitiveness worldwide.

CZECHOSLOVAKIA

Overview

Between December 1 and 3, 1983, the delegation visited Prague, Czechoslovakia, and met with CSSR Government officials and businessmen and with U.S. Embassy personnel to discuss economic and trade problems.

Although Czechoslovakia is one of the most economically advanced countries of Eastern Europe, it remains behind many of its neighbors in expanding trade ties with the West. U.S. trade relations with Czechoslovakia are not normalized as Czechoslovakia is one of four East European countries with which the United States has not signed a trade agreement. Overall bilateral relations are currently poor, reflecting in part the U.S. policy of differentiating among East European countries according to their human rights record and their relationship with Moscow.

Since 1968, Czechoslovakia has been one of the most orthodox members of the Soviet bloc and the Czechoslovak Government often takes strongly pro-Soviet positions on international issues. Just prior to the delegation's arrival, the Czechoslovak Government announced that, together with the German Democratic Republic, the Soviet Union would deploy nuclear missiles on Czechoslovakian territory as a countermeasure to the United States Pershing II and Cruise missile deployment in West Germany. However, because of the presence of some resistance to the deployment, the delegation learned that the Government has been engaged in a campaign to convince the population of the necessity of the measures.

Following our mission, the delegation noted a series of press reports which appeared in the United States detailing the growing discontent among East European countries about the Soviet missile deployment and the decision to break off the Geneva talks.[1] Most recently, a Business Week report reflected this development:

> Moscow can still force East Germans and Czechs to accept the installation of new medium-range Soviet missiles, currently being deployed in both countries. But complaints by East German and Czech leaders about the escalating nuclear arms race, clearly aimed at Moscow as well as Washington, reflect a slackening of the Soviet grip that would have been unthinkable until recently.[2]

According to the State Department, the Soviet Union presently stations about 75,000 ground troops and 5,000 air force personnel in

---

[1] "Soviet Bloc Rift Reported by U.S.", New York Times, Dec. 21, 1983, p. 3; "Soviet Missile Plan Disconcerts Bloc Allies", The Washington Post, Dec. 20, 1983, p. A1. See also "Bush: U.S. Will Aid Maverick Soviet Bloc States", The Washington Post, Sept. 22, 1983, p. A22.

[2] Business Week, p. 46.

Czechoslovakia. The Czechoslovak military continues to be subject to the command and direction of the Warsaw Pact commander, always a Soviet officer.

Czechoslovakia's population of 15.2 million embraces two distinct peoples and languages, the Czechs and the Slovaks. The Slovaks, who have their regional capital in Bratislava, make up about 30 percent of the population with the Czechs comprising about 65 percent. As a result, a distinction is made between the Federal and the National Government. The National Government is subdivided into two parts, the Czech Socialist Republic and the Slovak Socialist Republic, with one Federal Government for the entire country. In addition, other ethnic groups are present, including some 800,000 Hungarians.

The country is divided into three principal regions: Bohemia, Moravia, and Slovakia. Bohemia, in the west, is politically and economically the most important part of the country and includes the capital of Prague with a population of about 1.2 million. Moravia, the central region, has important coal and steel industries in the north. Slovakia, in the east, with both mountains and lowlands, plays an important agricultural role.

The Czechoslovak economy, which is closely linked to the Soviet Union's, is centrally planned and controlled. Apart from agriculture, in which a cooperative form of ownership is practiced, all branches of the national economy are state-owned. The leading industrial branches are metallurgy and engineering, but the importance of the chemical industry is growing. Moreover, traditional industries such as food, textile, glass, ceramic, beer brewing, china, and wood-working continue to play their part. Agriculture accounts for 13 percent of the work force and about 10 percent of the GNP. The country is 90 percent self-sufficient in food production and is a net exporter of meat and sugar.

Despite the relatively sluggish economic performance in recent years, Czech officials noted that virtually no unemployment exists; 1983 represented a year of growth after the negative records of 1981 and 1982. The delegation was impressed by the educated Czech work force and with the high employment of women, who make up nearly 45 percent of the labor force. The annual gross national product per capita is about $5,290, according to the State Department figures. And, although there are occasional deficiencies of supplies and services, the Czech people generally enjoy a reasonably adequate material existence.[3] Overall, Czechoslovakia's 1983 trade with the West declined. In contrast, trade with the other socialist countries increased by nearly 13 percent last year. The Department of Commerce reports that emphasis is being placed on closer economic integration with the Soviet Union and other East European countries.

Despite the current difficulties in the bilateral relationship, some small steps have been taken to improve the atmosphere. In 1981, an agreement was signed to return to Czechoslovakia gold held by the United States and to settle U.S. claims against Czechoslovakia

[3] The State Department Report on Human Rights states: "* * * access to goods and services varies significantly, with elites among Communist Party members, artists, and professional athletes enjoying privileges far above the norm." p. 966.

at the same time. At the present time, an exhibit entitled "The Precious Legacy: Judaica Treasures from the Czechoslovak State Collection," consisting of artifacts from the State Jewish Museum in Prague, is touring the United States in conjunction with the Smithsonian Institution. Further, the Czech Government, through its new U.S. Ambassador, has stated its willingness to "normalize" relations in all spheres. The delegation also notes that Czechoslovakia is particularly eager to receive most-favored-nation status.

The existence of sizable Czech and Slovak communities in the United States through a number of Czechoslovak-American organizations may also influence bilateral relations. In the past, these groups have urged the United States to take a greater interest in U.S. relations with Czechoslovakia and to exert pressure to achieve national autonomy and internal liberalization for the Czechoslovak people. According to different estimates, there are presently between 1 and 2 million Americans of Czech or Slovak origin and Czechoslovak-American groups publish some 28 original language newspapers and periodicals.[4] Although Pennsylvania is the State with the largest Czech and Slovak population, Congressman Bereuter noted that his district had the largest Czech community of any congressional district.

I. United States-Czechoslovakian Trade Relations

Bilateral trade turnover traditionally has been low and largely composed of agricultural products.[5] U.S. exports reached an all-time high of $185 million in 1980 (of which nearly two-thirds was soybeans), but by 1983 exports has fallen to $57 million, due to Czechoslovakia's import austerity policy aimed at reducing hard currency outlays. In 1983, the drop in U.S. exports to Czechoslovakia represented a continuation of this policy and the Czechoslovak goal of balancing trade bilaterally. United States-Czechoslovak trade in 1983 totaled $120 million ($57 million U.S. exports, $62.8 million U.S. imports) a decline of about $25 million from the 1982 level, according to preliminary Department of Commerce data.

Only four U.S. companies have representation offices in Czechoslovakia: Hewlett-Packard, IBM, Dow Chemical, and Lummus. Of these, only Lummus is staffed by an American citizen. Other U.S. firms have found it more cost effective to be represented through one of the eight Czechoslovak representation agencies.

Sales of agricultural commodities to Czechoslovakia have fluctuated sharply in recent years, while sales of nonagricultural goods have been more stable in comparison. The latter, however, have declined steadily since 1979, and their value in 1983, $21.2 million, was a drop of more than 11 percent from 1981 and more than 22 percent below the average annual value of such exports during the 5-year period from 1978 through 1982.

According to Foreign Agriculture Service figures, U.S. agricultural exports to Czechoslovakia in fiscal year 1983 amounted to $24 million, including $16 million of hides and $7 million of soybean

[4] U.S. Relations with the countries of Central and Eastern Europe. Report prepared for the Subcommittee on Europe and Middle East, House Committee on Foreign Affairs, by the Congressional Research Service, December 1979.

[5] U.N. Economic Bulletin for Europe, vol. 35, November 1983.

oilcake and meal. This represents a sharp decline from the $72 million in 1982, due mainly to reductions in shipments of corn and soybean meal. Czechoslovakian imports of those feedstuffs are believed to have been down from all sources in 1983 because of improved grain harvest. However, the country prefers to buy European corn when available for bilateral trade balancing reasons, and it reportedly was able to purchase soybean meal cheaper from Argentina and Brazil.

U.S. agricultural imports from Czechosolvakia in fiscal year 1983 amounted to $10 million, including $4 million of miscellaneous fruit and nut products and $3 million of canned pork. This level of imports is down from $15 million in fiscal year 1982.

UNITED STATES-CZECHOSLOVAKIAN TRADE

[In millions of dollars]

	1981	1982	1983
U.S. exports	82.4	83.6	57.1
U.S. imports	67.2	61.5	62.8
Trade turnover	149.6	145.1	119.9

Source: U.S. Department of Commerce.

The Czechoslovak economy experienced its second consecutive year of negative real growth in 1982. Czechoslovakia registered a substantial hard currency trade surplus in 1982, but this was achieved solely through strict import controls. Import and export volumes in trade with Western industrial countries both fell. The government has announced that it will not permit imports to expand faster than exports, and that hard currency indebtedness, despite its low level relative to that of other East European countries, will be further reduced.[6] Within a shrinking market for imports, the United States increasingly is being treated as a supplier of last resort. U.S. exports to Czechoslovakia grew by 1.4 percent in 1982, solely because of increased agricultural sales, but remained less than half the level achieved in 1980, then fell from $83.6 million in 1982 to $57.8 million in 1983—a new low.

Despite a general decline of 11.2 percent in the level of U.S. nonagricultural goods exported to Czechoslovakia in 1982, exports of U.S. machinery, transport equipment,[7] and chemicals were maintained at 1981 levels. U.S. equipment, such as analytical and scientific instruments, electronics production and test equipment, medical instruments and devices, computers and peripherals, and industrial controls, is highly regarded in Czechoslovakia and continues to be in demand by end users in priority sectors of the economy.

Czechoslovak Government statistics on economic performance in 1983 suggest that the economy began to recover from the recession into which it entered in 1981. For the third consecutive year, the growth rate for nominal national income was outpaced by the growth of retail prices, especially for meat and other foodstuffs, clothing, and some consumer durables; wholesale prices, especially

[6] After Bulgaria, Czechoslovakia had the lowest hard currency debt in 1982 (see Appendix D).
[7] The new model of the SKODA (the Czech produced car) is based on cooperation with the French Renault Motors. Financial Times, Nov. 17, 23, 1983.

fuels, construction materials, other industrial raw materials, and agricultural procurements, probably grew at an even faster rate. The standard of living declined, with retail prices rising approximately twice as fast as nominal wages, and personal consumption per capita for 1983 is estimated to be 1.4 percent below the 1978 level.[8]

Sharp reductions in imports, especially from advanced industrial countries, permitted Czechoslovakia in 1983 to record a hard currency trade surplus estimated at more than $800 million, but less than $1 billion. The surplus on current account probably exceeded $500 million. Trade surplus with non-Socialist countries reached a record level of $776 million, compared to a level of $484 million in 1982 (1.4 percent as opposed to a decline of 6.5 percent for imports), while trade with the Soviet Union and other Socialist countries was up by more than 13 percent overall, accounting for about 75 percent of total trade.

The Czechoslovak Government, intensifying the extremely conservative financial policy it has pursued since the late 1960's (after the Soviet invasion), has announced that it will not utilize hard currency borrowing to finance modernization of industrial plants and that it will permit hard currency imports to expand only to the extent that hard currency exports grow. Emphasis is being placed upon closer economic integration with the Soviet Union and other members of the Council for Mutual Economic Assistance, especially development of inter-branch and inter-enterprise cooperation projects. Trade turnover with these countries is expected to grow in 1984; no target has been published on trade with the West.

Efforts to control hard currency expenditures have been reflected in (a) closer monitoring of import applications, with increased delays in securing approval, and (b) increased demand for preferential financing arrangements, including 1- and 2-year credits for raw materials previously purchased for cash, supplier credits, and substantial countertrade components for many contracts. The combined effect of these measures has been to intensify competition among Western suppliers for a shrinking market and to solidify the market position of firms with long experience and good contacts in Czechoslovakia. Thus, within the context of a shrinking market, the United States frequently is treated as a supplier of last resort.

Czechoslovakia and the GATT

Czechoslovakia became a contracting party to the GATT in 1948, prior to the establishment of the Communist regime. Although Czechoslovakia has remained a GATT member since that time, it has not been an active and visible participant in the GATT's activities.

Czechoslovakia participated in the Tokyo round negotiations and signed the tariff protocol, although no other GATT member entered into bilateral tariff negotiations with it. It has since signed

[8] Wharton Econometric Forecasting Associates, "Czechoslovakia Economic Performance for 1983," Feb. 20, 1984.

the Standards Code, the Licensing Code, and the Antidumping Code.

The United States does not apply the GATT in its trade relations with Czechoslovakia. In order to comply with the provisions of the Trading With the Enemy Act of 1951, the United States sought the GATT contracting parties approval of the suspension of GATT obligations between the United States and Czechoslovakia. Approval was granted in September 1951, and the application of the GATT between the two countries has remained suspended since that time. Last year, Czechoslovakia raised bilaterally and in the GATT Council the question of the resumption of GATT relations between the two countries. The inquiry was deflected, in part because of the current state of United States-Czech relations.

II. Highlights of Meetings With Czechoslovak Officials

The delegation held discussions with Deputy Prime Minister Rudolf Rohlicek, Deputy Foreign Minister Jaromir Johanes, and Deputy Minister of Foreign Trade Jaroslav Jakubec. Although the reception was cordial throughout, the Czechs made clear their strong concern over the rising tensions resulting from the missile deployment. However, Czechoslovak officials genuinely appeared to welcome the congressional visit at this juncture in the current tense East-West atmosphere. Further, Czechoslovaks gave the impression that they believe it is especially useful to maintain contacts in a period of increased tension and that economic relations need not take the same course as political ties.

Trade matters, including information on Czechoslovak economic relations with other market economies and general problems of trade between market and nonmarket economies, including the issues of dumping, subsidies, and nontariff barriers, were discussed. While deployment of U.S. missiles in Europe was raised in the context of the trade talks, this was not the centerpiece of discussion. Czechoslovak officials expressed a positive attitude toward the possibility of granting MFN for Czechoslovakia, although they had no illusions about the difficulties involved.

The Deputy Prime Minister stated that although the situation is made more difficult by the deployment of missiles, the lack of MFN treatment is a major problem for Czech trade. The resulting high tariffs force the Czechs to export at lower prices in order to be competitive. He noted that Czechoslovakia wants to develop trade, but that it should be on "equal footing," and not on the discriminatory basis of present U.S. law. The Minister also noted that while European Community tariff barriers also pose problems for Czech suppliers, the Federal Republic of Germany is their largest trading partner. Several members of the delegation replied that it was important for both sides to "lower their voices" and to concentrate on small, concrete steps related to trade. Members also pointed out their strong interest in improving trade relations by making the trade laws less discriminatory. Although it was noted that 1984 would be a difficult year, the delegation did express an interest in laying the necessary groundwork for the Congress to consider changes in MFN treatment.

During our conversations with Czech trade officials, it was forcefully brought to our attention that the lack of MFN was the major barrier to United States-Czech trade. The Czechs noted that there was no incentive to continue to import corn and wheat from the United States if Czech exports face such high tariff barriers in the United States. They mentioned, for example, that for exports of Czech beer to the United States duties represented almost 45 cents per gallon, but that with MFN it would be substantially less. Without MFN, they noted, the whole basis for bilateral free trade is missing, since trade barriers other than tariffs were manageable.

Dumping cases appear to be settled through negotiations. Regarding the negotiation of dumping and nonmarket economy price determinations, the Czechs stated that they had not recently experienced difficulties. There were only 10 or 12 dumping cases against Czechoslovakia by Western Europe in 1983 and those cases do not have much of an influence on Western trade.

During a reception given by the Chairman of Czechoslovak Chamber of Commerce Cerny and the Czechoslovak section of United States-Czechoslovak Economic Council, the delegation had the opportunity for constructive discussions with a broad sampling of Government officials involved in foreign trade, finance, and foreign affairs, as well as members of foreign trade firms and academic economists.

III. Prospects for Improved Commercial Relations

In the absence of normalized bilateral trade relations, the economic outlook and prospects for expanded trade with Czechoslovakia will remain poor in the short term. It is expected that the level of investment will continue to be depressed as efforts to clear up the backlog of unfinished projects continue. Czechoslovakia's policy of limiting imports to export earnings at a time when exports to the West are falling will place severe limitations on hard currency availability. The shortage of hard currency for purchase of Western goods will be aggravated by the leadership's determination to reduce further the country's hard currency indebtedness, thus necessitating a surplus in their Western trade accounts. Western suppliers can expect to meet greater demands for extended supplier credits and countertrade arrangements in dealings with their Czechoslovak customers.

Concern is also growing over Czechoslovakia's deteriorating competitiveness in world markets. Increasing pressures are developing to modernize the economy, to improve the quality of manufactured goods, and to reestablish the traditional export competitiveness of Czechoslovak industry. While minor changes have already been made to allow Czech manufacturing enterprises greater control over their export performance, the conservative commercial policy and austere domestic policy continues. As it becomes more apparent that the Government's financial policies and investment and resulting restrictions on imported Western equipment need to be changed, business opportunities for Western suppliers could improve dramatically.

In addition to economic factors, the low level of our political relations remains an impediment to improved Western trade. Diplo-

mats from both sides strongly noted to the delegation problems of access to host country Government officials. In fact, the Deputy Foreign Minister pointed out that he was unable to ever obtain an appointment with the U.S. Secretary of State while he was in Washington as the Czech Ambassador. And U.S. Embassy officials complain that their access in Prague is often difficult and inconsistent. The delegation strongly believes that the lack of political contacts and high level official talks is a serious impediment to improving overall relations.

These problems are exacerbated by the fact that Czechosolvakia often takes a more hardline and ascerbic position vis-a-vis the West than does the Soviet Union. Recently, the Czechoslovak media has engaged in rather vitriolic attacks against the United States and its policies. Moreover, Czech officials have strongly attacked nearly all American policies, whether they be in regard to the Middle East, Central America, arms control, or the U.S. role in Grenada.

However, the delegation appreciates the steps that have been taken to improve the atmosphere between the United States and Czechoslovakia, particularly the role of the Czech Government in arranging for the Judaica exhibit now being shown in the United States. We strongly believe it is important to continue to improve this atmosphere by any means available in order to improve commercial opportunities.

The major issue in United States-Czech bilateral trade relations, however, is the absence of normalized trade relations. The United States has not concluded a trade agreement with Czechoslovakia providing for reciprocal extension of most-favored-nation [MFN] tariff treatment or CCC credit or credit guarantees. Lack of MFN treatment, Czech officials maintain, discriminates against Czechoslovakia because of their political system. Moreover, there is no Government-to-Government economic commission, and the only formal vehicle for promotion of U.S. business interests in Czechoslovakia remains the privately-sponsored bilateral Economic Council.

The Trade Act of 1974 required that both countries renegotiate the so-called Gold Claims Agreement of 1974 and include it as part of any bilateral trade agreement. This requirement was satisfied in 1981 when Czechoslovakia agreed to settle post-war nationalization claims of U.S. citizens in exchange for U.S. approval to release Czech gold held by the Allies since World War II. Congressional approval followed in December 1981 (Public Law 97-127). However, even though this Trade Act requirement has been met, the Czechs also must address the emigration requirement under present law before a bilateral trade agreement can be negotiated and MFN extended. The Czechs have not been willing to provide such assurances, and are not expected to do so in the foreseeable future, since they believe that the freedom of emigration provision is tantamount to an interference in their internal affairs.

As the House committee report on the bill approving the final settlement of Czech claims noted: [9]

---

[9] H. Rept. 385, 97th Congress, 1st Sess., p. 9 (1981).

> When an earlier Czechoslovak claims agreement was brought to the Congress in 1974 (and subsequently rejected), it was linked to the possibility of extending most-favored-nation [MFN] status to Czechoslovakia. The present claims agreement involves no such linkage. Settlement of the claims problem removes one obstacle to more normal political and economic relations between the two countries. U.S. negotiators made it clear to Czechoslovakia, however, that they considered claims an issue unrelated to trade, and that any agreement on the claims issue would involve no commitment on the part of the United States to offer MFN status or any other trade concessions.

Czechoslovakia is also eager to expand cultural and scientific exchanges and to continue civil aviation flights to the United States. The delegation emphasized that exchanges in cultural, scientific and tourist areas would improve the climate. (A scientific and cultural agreement initialed by both sides in 1976 has not been signed.) In our conversations with Czech officials, specific proposals, such as the establishment of a sister school exchange between Charles University in Prague and the University of Nebraska, were suggested by the delegation. Agricultural exchanges, seminars, and exhibits by both governmental and private United States-Czech groups would also be considered appropriate by the delegation.

Human Rights [10]

Freedom of movement within Czechoslovakia is not restricted, although travel by Czechoslovaks to other East European Communist countries has become more difficult. For example, by limiting the amount of currency which can be changed and also by limiting the number of trips which may be made in a year, the Government has succeeded in greatly reducing the number of cross-border shopping trips to Hungary. Travel to Western countries is difficult since travelers must obtain permission and, unless visiting close relatives, a hard currency authorization. Travelers to the West usually must leave some member of the immediate family at home to ensure their return, although these restrictions are relaxed for retirees. The delegation also learned that a large number of former Czechoslovak nationals who are now U.S. citizens are denied visas to visit their former homeland, often without justification.

With regard to emigration, the State Department Human Rights Report states:

> Obtaining permission to emigrate is a long and arduous process, especially for persons in political opposition to the Government. Applicants must endure long waits and may occasionally suffer reprisals such as demotion or loss of job after applying. There are no special barriers to anyone emigrating to join a foreign spouse. Czechoslovakia occasionally denies the right of repatriation by stripping the citizenship of those citizens it does not wish to return.[11]

---

[10] Information in this section is based on the 1983 State Department Human Rights Report, p. 963, and from delegation conversations with U.S. Embassy officials.

[11] State Department Report, p. 963.

Religious activity is also controlled by the State through the registration of the 18 officially recognized religious groups, the licensing and payment of members of the clergy, and by a number of other measures. Religious publishing is permited under the strict control of the State, which monitors official church newspapers. Nominally, about 11 million Czechs are Catholics and just over 1 million are Protestants. Relations with the Vatican have been poor for many years; Czech officials have been reluctant to accept any new cardinals or bishops from Rome.[12] The Jewish community, numbering several thousand, has a central religious organization financially supported and controlled by the State.

Finally, a rather large state security apparatus exists in Czechoslovakia which has been known to harass political dissidents. A Czech human rights group, Charter 77, established in 1977 to monitor the Helsinki accords and the Universal Declaration of Human Rights, has reported continuous harassment and punishment for their active human rights role.[13]

OTHER ISSUES

Foreign Commercial Service [FCS]

The commercial section in the U.S. Embassy in Prague was staffed by one senior commercial officer and two foreign commercial service nationals at the time of the delegation visit. This staff is responsible for management of the Embassy's business facilitation center, and for carrying out FCS' commercial program for Czechoslovakia. The delegation learned that consideration is being given to withdrawing the commercial section from the Embassy. Because we place the utmost importance on the role of the FCS in our commercial relations, particularly in East-West trade, we strongly oppose attempts to diminish our commercial presence in Czechoslovakia. Difficulty in arranging commercial relations for U.S. commercial interests should be the criteria, not volume of trade.

Trade promotion

U.S. Government trade promotion efforts in Czechoslovakia center on the annual Commerce Department sponsored exhibition at the Brno International Engineering Fair. The Brno exhibition traditionally attracts the largest number of U.S. participants, and in terms of sale and cost recovery, is the most successful, of all Commerce-staged events in Eastern Europe. The 1983 exhibit, Commerce's 11th consecutive, attracted 22 U.S. exhibitors, who reported $1.5 million in sales during the event.

Success in Brno has led Commerce to explore participation in other events such as Sympotech 1984 in Bratislava (building products) and the 1984 International Chemical Fair. The Commerce Department is reportedly reviewing these possibilities.

---

[12] "Pope, in Turning Point, Receives a Czech Official," The New York Times, Dec. 8, 1983, p. A-16.

[13] "Prague Eases up on Eastern Europe's Last Human Rights Group," The Washington Post, Aug. 11, 1983, p. A24.

Czechoslovak-United States Economic Council

Founded in 1975 and administered by the United States and Czechoslovak Chamber of Commerce, the Council meets annually to promote the interests of member companies on both sides. The last meeting of the Council took place on October 3, 1983, in Williamsburg, and its next meeting tentatively is scheduled for fall 1984 in New York.

In the absence of normalized trade relations, the Council serves as the only formal vehicle for promotion of bilateral trade. The Council appears to have largely symbolic importance in terms of overall bilateral trade relations; its ability to contribute significantly to bilateral trade expansion is inhibited by the lack of normalized trade relations and the negative trends in overall U.S. relations with Czechoslovakia. This past Council session did not lead to concrete new proposals for expanding trade, although such meetings serve to maintain the presence of the few large member U.S. firms active in the Czechoslovak market. The delegation believes this forum is beneficial and should be expanded. Clearly, a Government-to-Government commission would provide even greater impetus to enhancing commercial relations.

CONCLUSIONS

The fact that Czechoslovakia has demonstrated neither an autonomous foreign policy, nor a willingness to pursue a policy of domestic liberalization--the two most important criteria cited by Vice President Bush in his Vienna speech on U.S. policy toward Eastern Europe—led the delegation to conclude that the administration is giving relations with Czechoslovakia a low priority.

We regret this trend and urge the establishment of closer ties, including giving serious consideration to the granting of MFN. We believe this approach would enhance U.S. commercial relations with Czechoslovakia and would, in the long run, lead to greater stability in East-West relations.

AUSTRIA

Overview

The delegation visited Vienna, Austria, between December 3 and December 5, 1983, for discussions with U.S. Embassy officials and Western business persons based in Vienna. The delegation visited Vienna because of the important role the city plays as a bridge to the East in both foreign and commercial relations. Vienna is the location for a constant exchange with Central and Eastern Europe of business representatives, political leaders, cultural groups, and tourists. Austria is active in increasing contacts with Eastern European countries and the Soviet Union. In particular, the American Chamber of Commerce's East-West Trade Subcommittee is a key group for doing business throughout the region, especially with the nonmarket economies of Central and Eastern Europe.

U.S. exports to Austria peaked in 1981 at $484 million, representing a 4.1-percent share of the import market. However, low levels of economic activity and the strength of the dollar have negatively affected the U.S. position in Austria and elsewhere in Central Europe. U.S. businesses active in East-West trade also blame overzealous and unnecessary U.S. export controls for eroding their sales and giving the advantage to Western competitors, such as West Germany and Japan. In 1983, U.S. exports to Austria totaled $371 million and the U.S. market share declined to 3.4 percent. Trade with the Soviet Union and Eastern Europe represented 11.1 percent of Austrian exports and 11.1 percent of imports in 1982.

I. United States-Austrian Trade Relations

Following a period of considerable speculation in 1982 concerning possible frictions in our bilateral relations brought about by Austria's hosting of Colonel Quadhafi, some ciriticism of Austria's neutrality policy, and problems in the areas of trade and refugees, 1983 was marked by exceptional cooperation and contact at the highest levels. However, with visits to Washington by former Chancellor Kreisky and conservative leader Alois Mock last year, 1983 saw the naming of a new U.S. Ambassador, Helene von Damm, the reopening of the U.S. Consulate in Salzburg, and the visit of Vice President Bush to Vienna in September, where he delivered a major address on U.S. policy toward Central and Eastern Europe (see appendix I).

The relationship with Austria is a strong and stable one. Initiatives aimed at increasing bilateral trade, youth exchanges, and cooperation in science and technology have been recently undertaken. Relations with the new Socialist-Centrist coalition government, sworn into office in May 1983, as well as with the conservative opposition, are very good. Although differences in viewpoint over cer-

tain policy questions and the Austrian military expenditures still exist, these issues do not disrupt the otherwise excellent bilateral relationship.

The relationship is important to the United States from several standpoints. While a declared neutral, Austria is philosophically a Western country, basically pro-United States, and a primary example of a flourishing democracy outside the context of an alliance. The Austrians like to view their neutrality in terms of its activism and usefulness in helping to promote international dialog and relieve tensions. Austria has credibility and influence in areas of the world in which we have great interest: the Middle East, Eastern Europe, Southeast Asia, and Latin America. Austria supports and actively works within the framework of international cooperative organizations. Finally, Austria has demonstrated moral leadership and commitment to human rights and freedoms through its role as a country of first asylum for East European refugees and in facilitating the resettlement of Soviet Jews.

Austria's business and politics is becoming increasingly dominated by the so-called successor generation, those born after World War II. These younger business and government leaders have a more skeptical view of the world and are more willing to criticize the United States. The new coalition government has focused more on internal problems and has, thus far, been cautious with respect to foreign affairs. They appear skeptical of U.S. goals in Central America, but support U.S. efforts in Lebanon. Austria's approach to Israel is balanced. Although more Europe oriented, Austria values its ties with the United States and was pleased that Vice President Bush chose Vienna to give his foreign policy address. Because of Austria's neutrality, there were concerns about the toughness of the speech. It was felt that the Vice President's singular praise of Hungary might cause a reaction against Hungary's independent economic policy. The United States wants to improve the dialog with the successor generation in order to assure that Austria continues to view U.S. policies in a realistic and, wherever possible, supportive way.

Austria's "Social Partnership" is the durable government policy whereby the representatives of management and labor cooperate in the interest of the economy as a whole. It has contributed significantly to Austria's stability and the country's impressive economic growth in the period following World War II. The attraction to the idea of cooperation has its roots in the discord and mass unemployment in the 1930's as well as the disillusioning experience of the war, the occupation, and the resulting economic collapse. All of these factors combine to strengthen the resolve of the various economic groups in Austria to work together to solve outstanding problems through compromise.

Austria had a coalition government for two decades following World War II. This contributed to the consensus embodied in the social partnership, which was responsible for many important economic policy decisions throughout the period. There are many organizations in Austria representing the interest groups that built the social partnership, but five are the most important. The Chambers for Commerce (or Federal Economic Chamber), Labor, and Agriculture established by law, with membership compulsory and ex-

penditures financed by taxes. Workers are represented by the Federation of Trade Unions, in which union membership is voluntary, in addition to the Chamber of Labor. The fifth organization is the Industrialists Association with membership voluntary and composed of big business. These five organizations have developed institutions and procedures for discussion, and, as far as possible, for solving economic problems.

The Joint Price and Wage Commission was set up in 1957 with the purpose of resolving issues on the economic front. It is made up of four government representatives and eight representatives from the main Chambers and from the Trade Union Federation. The Commission meets once a month to discuss problems in three areas: prices, wages and long-term economic changes. It works on a voluntary basis and has neither the legal authority nor the means to apply direct sanctions. Decisions must be made unanimously. According to the noted economist, Hans Seidel, who is now the State Secretary in the Austrian Ministry of Finance, the Commission has worked not because of structure but because everyone is stuck together with a vested interest in the outcome.

Evidence of the success of the Social Partnership is obvious. There are almost no strikes in Austria. During the stormy 1970's the Austrian eonomy performed satisfactorily, with annual real growth averaging 1 percentage point higher than the whole OECD area and unemployment hovering around 2 percent. Following the first oil price increase, the rate of inflation was able to be lowered from 10 percent in 1975 to 3½ percent in 1978 and 1979. However, some observers of the Austrian social economic scene fear that some deterioration in the consensus underlying the Social Partnership may occur because of the depressed economic climate. Over the past few years, Austria's budget deficit expanded rapidly until their debt reached about 6 percent of GNP. Austria also furnished about $2 billion in credits to Poland. Austria's economy showed no growth in 1981, 1.1 percent growth in 1982, and 1.5 percent growth in 1983. Ten percent of Austria's trade is with Central Europe and the U.S.S.R. with most of their petroleum being purchased from the Soviets.

The Government has moved quickly to curb outlays and to hold the deficit at $5 billion by reducing expenditures on social programs, increasing the value added tax [VAT] and taxing savings accounts (which also encourages spending and could trigger higher inflation). Austria's unemployment stands at 4.7 percent but is expected to go up by an additional 2 percent. This is very high by traditional standards and, if Austria calculated their unemployment the way the United States does, the rate would be even higher. The retirement age has been pushed down substantially, retraining is difficult, there is little mobility to facilitate employment, and the high unemployment rate among youth are a major concern. In order to expand its economy, Austria must focus on new areas of technological innovation and must continue to import technology for its development.

Austria's agriculture sector is small, representing only 6 percent of GNP. Austria has pushed for increased productivity and self-sufficiency, but the cost has been high and the Government continues to heavily subsidize agriculture production. Currently, about 12

percent of the population is engaged in food production and the country is 86 percent self-sufficient. Principal agriculture exports are grains, livestock, and dairy products. Overall, the United States has a positive balance of trade with Austria, with the balance in agriculture products also in surplus for the United States.

Austria is a member of the GATT and the European Free Trade Association [EFTA]. However, Austria is not a member of the European Economic Community [EEC]. Austria claims that EEC membership would hurt its position as a neutral and might endanger its traditional relationship with Central European neighbors. Austria and the EEC have an association agreement that provides reciprocal tariff treatment, among other benefits, and affords Austria greater access to EEC markets than other nonmembers. The question of joining the EEC is not a dead issue but is revived and considered periodically.

With respect to the recent missile deployments, Austria has expressed regret at the escalation. They have favored a balance of arms at the lowest possible level. There have been two large demonstrations against the missiles but, with both political parties as well as Catholic organizations participating, the demonstrations were not an opposition or leftist controlled activity. The United States has encouraged Austria to make qualitative improvements in its own military capability in order to defend its own borders and to demonstrate that Austria's policy of dissuasion is credible.

II. Meetings With Embassy Officials and Business Leaders

Because of the importance of Austria as the host country for many U.S. companies doing business in Central Europe, the delegation met with a broad range of representatives from the U.S. business community in Vienna. The central theme of these meetings was that the importance of U.S. business presence in Austria and throughout the region is often offset by U.S. Government actions which are unsupportive or even disruptive to American business activity. The fact that trade promotion efforts take a back seat to excessive application and enforcement of export licensing rules disadvantages U.S. exports in the region and erodes the position of U.S. businesses in favor of other Western competitors.

At an informal dinner hosted by the senior vice president of the American Express Banking Co. of Austria, members had an opportunity to discuss mutual concerns with representatives of a variety of U.S. firms doing business throughout the region. The most detailed discussions took place at a breakfast meeting with the American Chamber of Commerce's East-West Trade Subcommittee.

Members of the Chamber's subcommittee noted the difficulty in doing business in Central Europe over the past several years because of the world recession, the consequences of 10 years of deficit financing amounting to over $10 billion for the countries in the region, internal inflation, and increased costs extracted by the U.S.S.R. for its economic and military support of the region. The unofficial inflation rate probably averages over 20 percent, with countries having the most independent control over their economies also experiencing lower inflation. Rising inflation was triggered when controlled prices for certain staples, such as rents and

food, were recently increased after about 25 years of fixed rates. Also, the U.S.S.R. is charging higher prices for energy and other products it supplies to the region.

The Chamber was quick to point out that, in spite of economic difficulties and Government policies, end-users in the various countries were in general pro-American and sought U.S. goods for their quality and popular appeal. They are unhappy about not having MFN because they are well aware of the link between selling goods in the United States and the availability of American products in the region. Most Central European countries do extensive business with the West, but it was felt that U.S. firms were losing out to Western competitors because of restrictive practices in the areas of MFN extension and especially export licensing regulations.

The biggest complaint of the Chamber was that U.S. export licensing procedures were complicated, time consuming, inconsistent, and too restrictive compared with our Western trading partners. In their view, U.S. policy displayed an attitude of controlling rather than promoting trade. Although the timetable for getting a license issued is relatively short in cases where items are restricted by both COCOM and the United States, the problem comes with licenses for those items unilaterally controlled by the United States. One problem is not knowing whether a license is needed and the long wait while Washington bureaucrats investigate individual shipments and make a determination on the licenses. Competitors can have that decision made rather quickly. Also, unilateral restrictions on relatively low-level technology frustrated U.S. firms who see the same product widely available from other Western sources.

Over the last 5 years, the U.S. market share in the region for technology exports dropped from about 20 percent to less than 8 percent. The business was lost to Japanese and West German firms and did not represent a cut-back in the availability of Western technology in Central Europe. One example of a product unilaterally controlled by the United States is personal computers. American firms cannot get licenses to sell personal computers in the East, but they are widely available through other Western distributors. In addition, these items can be purchased by individuals in the West and carried easily into Central Europe and even the U.S.S.R. The Chamber complained that U.S. computer technology licensing rules are based on 1976 technology assessments and, as a consequence, disrupt legitimate trade and perhaps do not adequately address the newer technological developments. Another product area too strictly controlled is micro-sound imaging equipment used for medical diagnosis.

These examples also demonstrate the lack of coordination of licensing procedures among COCOM countries and the determination of the United States on its own to expand the product coverage subject to restrictions. Although COCOM may have approved certain computer sales, software for those computers will be restricted for U.S. firms while West German firms can supply the same software easily. Spare parts requirements offer a similar problem where large machinery orders go to Western competitors because U.S. firms cannot get licenses for certain components (usually computer drives) and may only be able to supply other replace-

ment parts for a year before licenses expire and the lengthy and unpredictable process must again be undertaken.

Finally, the issue of contract sanctity and extra-territoriality was raised by the Chamber as a serious problem uniquely faced by U.S. firms. The wheat and pipeline embargoes were still fresh in the minds of American companies affected as well as potential customers in Central Europe who might still question whether the United States is a reliable supplier. In the Chamber's view, without broad support from our allies and trading partners, the result of such embargoes is to penalize American businesses and stagnate the long-term economic climate with little or no effect on the Government policies in the region. In the case of attempts to restrict the activity of U.S. subsidiaries that are wholly or partially owned by other nationals, the companies are caught between two opposing policies and often have their business disrupted in areas beyond the embargo because of the uncertainty. The Chamber was very supportive of the contract sanctity provisions of the House-passed Export Administration Act renewal legislation and also those provisions that limit U.S. controls on products widely available from other Western sources.

When asked whether improved licensing procedures would result in better sales for U.S. firms, given the fact that the credit situation was forcing many countries to cut back their imports, the Chamber agreed that U.S. sales would continue at low levels for the next few years. In addition to credit and other economic difficulties, productivity in Central European countries is so far behind the West that the demand for U.S. products will continue to be limited. However, it is important to build markets for the long term and, even in the short term, the United States can strengthen its position in the region at the expense of other Western suppliers. Also, improvements with respect to the contract sanctity issue would be of immediate benefit to our grain and soybean sales. The fact that most of the Fortune 500 companies were represented either in Vienna or elsewhere in Central Europe was indicative of the trade potential this region is expected to have in the future.

The Chamber representatives concluded by pointing out that, in addition to important economic benefits to be gained by improving the bilateral trading relationship, trade also contributes to peace. There is a great deal of good will among business persons on both sides; sales representatives are hired locally and develop loyalities to their company as well as their country. Better communication and increased contacts through trade can only improve understanding and peaceful relationships.

The delegation also met with Ambassador von Damm and the Embassy staff where the primary issue of discussion was export controls. Because of Austria's neutrality and location, Vienna serves as the link between Western businesses and the East and is the city through which substantial trade, both controlled and uncontrolled, flows from West to East. Therefore, the role of the U.S. Embassy in trade promotion and efficient enforcement of export controls is extremely important to U.S. interests throughout the region. Members of the delegation were concerned that Foreign Commercial Service [FCS] resources, not only in Vienna but at other posts as well, were being expended disproportionately on

export controls enforcement and monitoring, at the expense of trade promotion activities, without resulting in any significant discoveries of illegal activity.

Currently there are six FCS officers in Austria (five in Vienna and one in Salzburg); all but one of these officers are Austrian nationals. Over the past few years, and especially since the Afghanistan and Poland crises, U.S. export controls have become increasingly restrictive and are currently much tighter than COCOM allies have agreed is necessary. Austria is viewed as the most likely country through which technology exports could be illegally transshipped, although evidence of such wide-spread illegal activity has not been demonstrated. Nevertheless, an increasing proportion of FCS officers' time is being spent checking end-users of U.S. products shipped under license, verifying other licensing information, and tracking down possible violations (although few violations have been discovered). Members of the delegation, several of whom were instrumental in establishing the FSC program, pointed out that the primary mandate of the FCS was to promote U.S. exports abroad and not to act as the enforcement agency for export controls. The FCS program should facilitate U.S. sales and not be called upon to hamper U.S. trade because of unjustified fears regarding technology transfer, the vast majority of which is exported legitimately.

Embassy personnel responded by noting that the burden for export controls enforcement would be eased somewhat with the assignment this year of a full-time Department of Commerce special assistant from the Office of Export Administration whose primary function will be to facilitate and monitor licensing requirements. Also, the Economic Counselor and the Foreign Agriculture Service (FAS) officer have important trade promotion functions that complement the efforts of the FCS officer. The delegation continued to be concerned that U.S. firms were being hurt more than helped by the current preoccupation with export controls and that an increasing volume of sales was being lost to U.S. competitors, especially West Germany and Japan. Furthermore, the trade promotion role in Vienna was especially important because it supported U.S. efforts throughout the region in areas (such as Prague) where it was not practical to have a full-time FCS officer.

III. Prospects for Future Commercial Relations

A moderate economic recovery has improved prospects for renewed growth of U.S. exports to Austria. The Austrian Government announced a package of economic and fiscal measures in September 1983 designed to reduce the country's budget deficit. This package, which took effect January 1, 1984, aims to reduce the net budget deficit to 5 percent of GDP in 1984. The Austrian National Bank recently predicted that the economy will grow only 0.2 percent next year, compared with 1.5 percent real growth this year. Another pressing problem is the modernization and restructuring of several of Austria's basic (most nationalized, such as steel) industries. Losses in these industries have mounted substantially in recent years. The proposed measures give priority to maintaining employment, but restructuring will result in substantial job reductions. Nevertheless, the country as a whole continues to enjoy a

high standard of living and a highly developed economy, and U.S. exports will continue to play an important role.

In 1983, the United States had a 3.4-percent share of the Austrian market, a decline from the 4.1 percent peak in 1981. In 1984, the U.S. share should increase only modestly given the economic situation. In fact, two-way trade has slipped slightly from $840 million in 1980 to about $800 million in 1983, but the United States has improved its surplus from about $60 million in 1980 to over $200 million in 1983. Maintaining as healthy a trade position as possible in Austria is important for the United States, not only with respect to bilateral trade with Austria but also with respect to U.S. trade throughout the region. Austria's main customers are West Germany, Italy, Switzerland, and the United Kingdom. In addition to growing technology exports, opportunities for U.S. sales are expected to continue along the traditional lines of feeds, paper, fertilizers, nonferrous ores, coal, pharmaceuticals, and construction machinery.

The Department of Commerce recently reported the growth of the Austrian computer market:

> U.S. computer exporters will find that Austria offers interesting sales prospects. The United States, with 33 percent of the market, is followed by Germany with 30 percent and the United Kingdom with 8 percent. The 57,000 computers installed in Austria as of Jan. 1, 1983 represented a 29 percent increase in terms of units and 12 percent increase in terms of value over 1981. The markets for medical equipment, electronic components and analytic/scientific instruments are also promising.[1]

U.S. investment in Austria

U.S. direct investment in Austria at yearend 1981 was $596 million, of which 22.3 percent was in petroleum, 24.2 percent in manufacturing, 39.6 percent in trade, and 13.6 percent in finance (nonbank), insurance and real estate. Some U.S. firms have marketing offices in Vienna because the city is an excellent location for conducting East-West trade. U.S. firms having manufacturing or service facilities in Austria include Bausch & Lomb and Eastman Kodak of Rochester, N.Y., Hewlett-Packard of Palo Alto, Calif., and Sensormatic Electronics of Deerfield Beach, Fla.

United States-Austrian trade issues

United States-Austrian trade relations are good. The two major industrial bilateral trade issues of earlier this year have been settled. In the first case, following an extended approval period, a U.S. export license was granted in June for the export of U.S. technology for the production of integrated circuits to be used in a joint venture in Austria between American Microsystems (San Jose) and the nationalized Austrian conglomerate, Voest-Alpine. A second troublesome problem was cleared up in September with the completion of negotiations for an orderly marketing agreement to regulate Austrian exports of certain specialty steel products to the

[1] Business America, Feb. 20, 1984, p. 9.

United States following a determination under section 201 of the Trade Act of 1974 that such imports were a substantial cause of serious injury.

The only other bilateral issue of consequence concerns oilseeds. In February 1983, the Austrians again raised their proposal to tax oilseed meal, an issue which had largely been dormant for several years. The tax would protect and subsidize Austrian domestic rapeseed production but would likely impact negatively on Austrian imports of U.S.-origin soybean meal currently estimated to be about $70 million per year. The United States maintains that the Austrian tax would violate earlier GATT commitments by Austria.

Emigration

Since World War II, Austria has served as country of first asylum for refugees from Eastern Europe and the U.S.S.R. Although this activity has at times proved to be a financial burden, Austria continues to fulfill this function. However, in 1983, the number of emigrants Austria has been able to handle was reduced because of economic conditions. Jewish emigrants from the U.S.S.R. generally transit Austria enroute to countries of final settlement.[2] The United States continues to support Austria's humanitarian role as a place of first refuge; Austria's position as a neutral and as the "third U.N. city" is positive influence throughout the Third World, including the Middle East.

Conclusions

Important East-West business activity is concentrated in Vienna, yet the United States has failed to develop its full trade potential in the region. American firms operate under overly restrictive export licensing requirements that do little to deter or expose illegal activity. In fact, they rather serve at times to disrupt legitimate trade and disadvantage U.S. exporters in relation to other Western competitors. Instead of being the most competitive of the Western industrial countries, with a market share in the region commensurate with our size and comparative advantage, the United States is the least competitive and the least involved in East-West commerce.

American firms continue to complain about confusing and unpredictable licensing procedures and the failure of the U.S. Government to provide adequate trade promotion assistance. Many licenses required of U.S. firms are unilateral and are based on technology assessments that are years behind the latest advances in science and engineering. Rather than concentrating on highly sensitive and sophisticated technology with military applications, U.S. regulations sometimes prohibit the sale of the simplest and most widely available computers and other equipment. Of course, other Western firms fill in the gap immediately and are aided in their efforts by effective trade promotion support from their governments. U.S. sales are lost time and time again to West Germany, France, Great Britain, and Japan.

---

[2] Country Reports on Human Rights Practices for 1983, State Department Report, February 1984.

The delegation strongly believes that the Foreign Commercial Service [FCS] must be used more effectively in the region. First, a greater commitment should be made to maintain an effective U.S. business presence in the area, even through periods of relatively low sales. The delegation believes that one of the most effective ways to transfer American values, principles, and culture, and contribute to peace and stability in the region, is through commerce and trade. Second, the FCS officers need to be allowed to dedicate most of their time to trade promotion. A disproportionate amount of time appears to be focused on export controls, although widespread violations have not been demonstrated and our allies do not seem to believe that such extensive restrictions are necessary. With limited FCS resources in the region, the trade promotion functions should be given the highest priority.

HUNGARY

Overview

Between December 5 and 8, 1983, the delegation visited the Hungarian People's Republic. During the mission, the delegation met with a variety of Government and party officials in Budapest and Debrecen, toured a major industrial plant, a cooperative farm, a large winery, and paid a call on the Roman Catholic prelate. The major themes of discussion were Hungary's economic reform and application, the extension of most-favored-nation [MFN] trade status beyond 1 year, the current financial situation, and prospects for improvement of bilateral trade.

Because of a poor raw material base and a small and declining population of 10.7 million, Hungary is highly dependent on foreign trade (about 55 percent of the gross domestic product). The United States-Hungarian relationship has steadily improved over the years. It is clear that bilateral trade relations are a major reason for the constructive and frank political dialog that exists between our two countries. As the State Department reported to the Subcommittee on Trade:

> Trade is a central element in our relations with Hungary, and the extension of MFN treatment in 1978 has been a significant factor in the development of our bilateral trade and economic ties. Although total U.S. trade with Hungary was down slightly last year due to the global recession and financial difficulties in many Eastern European countries, Hungary avoided the severe economic and financial problems experienced by some of its neighbors.[1]

As a result of economic adjustment, imports and business activity are expected to grow only very slowly for the next several years. With more economic restraints, the Hungarians are expected to stress countertrade (barter), cooperation projects and hard currency earning exports and projects. Hungary's main convertible currency trading partners remain nearby Western European countries,[2] but a number of positive steps have been taken to improve the U.S. trading position. The most positive step in bilateral relations came when MFN tariff treatment was obtained by Hungary in 1978. There are also numerous cooperative agreements between our two countries, several joint companies and a number of American business and Government commercial contacts have been created, and a tax convention to avoid double taxation was agreed to in 1980.

Hungary, in terms of overall economic development, is in the middle of the East European countries, behind the German Demo-

---

[1] Hearings, Serial 98–22, 98th Cong., 1st sess., at 57 (1983).

[2] Increased auto sales by West European and Japanese producers are expected in 1984. Business Eastern Europe, Nov. 11, 1983, pp. 356–57.

cratic Republic and Czechoslovakia. Under the New Economic Mechanism [NEM] reforms introduced in 1968, enterprise initiative and flexibility have brought about a greater market orientation and greatly improved the availability of consumer goods and the material quality of life.

In spite of the early and far-reaching steps toward market-oriented economic adjustment, Hungary has not escaped the financial difficulties faced by the less economically flexible countries of Eastern Europe. As a result, it faced a severe financial crunch in the first half of 1982, which eased by the end of 1982, with the assistance of the international financial community, the World Bank and IMF, and the Government's own resolve to reach current account equilibrium. Moreover, a policy of domestic austerity continued through 1983–84.

The leadership recognized the country's historical strength as an agricultural supplier early in their economic reforms. Consequently, reform has gone farther in agriculture than in industry. Heavy dependence on imported raw materials, in particular energy, has led to a deterioration of the terms of trade with both convertible currency (Western) countries and convertible ruble (East European) trade partners, which is belatedly forcing greater energy efficiency and conservation.

Hungary is a member of the Council for Mutual Economic Assistance [CMEA], the Soviet bloc's principal economic organization. In recent years, about 50 percent of its trade has been oriented toward the Soviet Union and the Communist States of Eastern Europe, and about half to the market economies of Western Europe, North America, the Middle East, and the developing world.[3] The 1981–86 sixth 5-year plan placed primary emphasis on bringing about equilibrium in the economy and maintaining the standard of living.

In response to the IMF, Hungary has taken further steps in their austerity policy. On January 24, 1984, the Government instituted major price increases which are expected to more than offset the 8-percent increase in nominal monetary earnings of the population in 1984. Price increases were particularly in higher gasoline prices, meat and meat products increased by 20 percent, and the average price increases in vegetables and canned fruit were also about 20 percent.[4] The main features of the Government's deflationary policy have been to restrict capital investment, force more efficient use of resources, rationalize prices, and hold down consumption and wages. Import restrictions introduced under GATT rules in September 1982 also helped reduce the value of 1982 convertible currency imports by 7 percent in dollar terms over 1981. Imports declined by 1.3 percent in 1983 to $4.5 billion. Exports for 1983 rose by just 0.3 percent in value and totalled close to $5 billion.

Agricultural performance fell in 1983 over 1982 by 3 percent. Because of unfavorable weather, agricultural production, particularly corn, was very poor in 1983, falling 16.4 percent in volume over 1982. Total grains harvested reached only 13.7 million after a record 14.8 million metric tons production in 1982. Pig and milk

[3] See "How Hungary Keeps Both Sides Happy", Business Week, Oct. 3, 1983, p. 72.
[4] Wharton Economic Forecasting Associates, "Hungarian Economic Performance in 1983," Current Analysis No. 13–14, Feb. 27, 1984.

production continued to rise; the output of fruits and vegetables fell. A fall in cereal exports was more than offset by the increased value of other agricultural products: meat, wine, apples, and canned goods. The domestic food price increases may permit more exports in 1984 if there is not a revision downward due to popular reaction.[5]

In 1984, Hungary will continue its policy of slow growth to induce economic adjustment. The stabilization of capital investment, which began in 1979, has been followed by a cutback in raw material, component parts and consumer imports. Although Hungary continues to push for expanded business ties with the West, reduction in imports has been necessary because of the constriction of foreign currency reserves. Confidence in Hungarian economic management has been shown, however, through loans supported by the Bank for International Settlements, the IMF, and commercial banks. Some $600 million in IMF standby and commodity compensation loans were approved in December 1982 and a $200 million commercial bank loan was signed in April 1983.

I. United States-Hungarian Trade Relations

According to Commerce Department statistics, U.S. exports to Hungary in 1983 totaled $110 million, while imports from Hungary to the United States totaled $154 million. Principal U.S. exports were vehicle parts, fertilizers, chemicals and pesticides, air and gas compressors, measuring devices, hides and skins, bulk pharmaceuticals, and machinery. The main Hungarian imports were canned meat (ham), footwear and clothing, vehicle parts (buses), and various food and manufactured items.

American business generally finds commercial conditions in Hungary favorable. Commercial relations are conducted in an open atmosphere and transactions are dealt with in a pragmatic manner. Joint venture and free-trade zone opportunities have broadened the options for American businesses operating in Hungary.

In late 1982, the Hungarian Government issued a decree creating more favorable conditions for setting up foreign joint ventures in customs free areas, absolving them from many foreign trade and income regulations. Although joint ventures have been possible since 1972, only 11 have been established. Production ventures by law had to have a Hungarian majority and only service companies could be foreign owned. To date, there are three American-Hungarian joint manufacturing companies. Eli Lilly, the most recent, has established a joint venture for the production of feed additives for poultry and livestock. Also, there are numerous cooperation agreements between American and Hungarian companies, Crown Coach, and Mogurt/Ikarus arrangement for articulated or extended buses being perhaps the best known.

---

[5] Ibid.

UNITED STATES-HUNGARIAN TRADE

[In millions of dollars]

	1981	1982	1983
U.S. exports	77.5	67.8	109.8
U.S. imports	127.9	133.2	154.5
Trade turnover	205.4	201.0	264.3

Source: U.S. Department of Commerce.

Three U.S. companies have permanent representation offices: Dow Chemical, IBM, and First National City Bank of Minneapolis. Hungarian direct investment into the United States includes Action-Tungsram (manufactures light bulbs), Taurus Tire Co., and the industrial cooperation with Crown Coach Corp. for the assembly and partial manufacture of articulated buses.

World Bank projects in agriculture and in the energy field have provided significant major project prospects for U.S. companies. Manufactured goods have consistently been the mainstay of U.S. trade with Hungary, notably in tractor parts, gas compressors, glass rods, and gasoline engines. U.S. investment has expanded with the coming onstream of the Eli Lilly feed additive joint venture and with substantial insurance joint ventures which provide coverage for both individual and commercial needs.

An intergovernmental joint economic and commercial meeting is held each year. The fifth session of the Joint Economic and Commercial Committee [JECC] met in Washington, D.C., on December 5 and 6, 1983.

The Hungarian-United States Economic Council was established in 1975 by agreement by both the United States and Hungarian Chambers of Commerce. The Council was created to promote cooperation and contacts between key commercial decisionmakers in the United States and Hungary. The U.S. section is chaired by Zoltan Merszei, Vice Chairman of the Board, Occidental Petroleum Corp. The Hungarian Chairman is Joszef Molnar, general manager of Tannimpex, a leading Hungarian foreign trade organization. The membership on the Hungarian side includes principal executives, foreign trade representatives, and other commercial institutional delegates. On the U.S. side, membership is comprised of executives of firms actively involved in trade with Hungary. The last meeting of the Economic Council took place in May 1983.

In late 1982, the Commodity Credit Corporation [CCC] approved $42 million in credits over 3 years for the purchase of $38 million in soybeans, $2 million in soybean isolates, and $2 million in cotton exports from the United States. A World Bank 15-year development loan to boost agricultural production and improve storage facilities was approved for the 1983 fiscal year. The loan was to cover $130 million in foreign imports, including wheat combines, heavy duty tractors, and precision corn seeders.

The most important development in boosting United States-Hungarian trade has been the 1978 bilateral trade agreement extending most-favored-nation [MFN] tariff treatment, annually reviewed by Congress. Since 1978, according to U.S. statistics, total bilateral trade had grown from $116.6 million in 1978 to $265 million in

1983. It is interesting to note that the U.S. trade figures vary considerably from the Hungarian and show approximately half the amount of American imports that the Hungarian statistics do. This suggests that many sales of American origin goods move through European subsidiaries or agents, rather than being sold directly.

While gross industrial production increased by over 2 percent in 1981 and 1982, 1983 industrial growth was 0.7 percent. Reductions in industrial output were experienced in clothing, electrical machinery, energy equipment. Fastest growing sectors were meat, pharmaceuticals, and fertilizer.[6] Major recent industrial projects include the Danube Iron Works converter steel mill, the combine steel plant of the Lenin Metallurgical Works, and third section of the Hungarian-Soviet gas pipeline, the first stage of the expansion of Budapest's Ferihegy airport and the Light Metal Works (aluminum) at Szekesfehervar. Continuing major projects are the construction of the Paks nuclear power station, the Budapest subway, and a catalytic cracking plant at the Danube Petroleum Industry Enterprise at Szazhalombatta.

The convertible currency trade balance rose to $850 million in 1983, largely on the basis of holding down imports. The current account balance was also relatively higher than 1982 with a deficit of slightly over $300 million. Because of the hard currency surplus with their socialist and developing country trading partners, the Hungarian hard currency deficit was held to $50 million. This 1983 deficit was in contrast with an anticipated $600 million current account surplus. However, exports of metals, chemicals, and clothing have been depressed and slow European recovery made the higher export projection unattainable.

After a hotel boom in Budapest in recent years, more emphasis has been accorded to building provincial hotels. About half of the $300 million Austrian building credit had been spent to build the luxury Forum and Hyatt hotels in Budapest. The remainder was to be used for resort hotels in the country, at Lake Belaton and for the modernization of the Budapest airport.

Hungary must import about 50 percent of its energy requirements. Domestic crude oil production is stabilized at 2 million metric tons a year, but the production of domestic coal and natural gas has been increased to substitute for imported oil. A fall in heavy industrial production and mild winters in 1981, 1982, and 1983 have been credited with significantly aiding the energy conservation program. Overall energy consumption declined by 2 percent in 1983 over the previous year. Before 1978, energy consumption rose at an average annual rate of 4 percent.

The Hungarian Government's official policy of no increased capital investment, combined with the current shortage of foreign exchange, and the need of balance trade with the West, will translate into decreased imports from convertible currency countries for the next several years. Lower anticipated gross domestic product growth and level living standards will also cut consumer imports, but the need to conserve energy, boost agricultural productivity and industrial exports should increase trade potential. Require-

[6] Ibid.

ments for licensing of defense-related exports can be expected to limit certain exports and licensing arrangements with Hungary.

While generally acknowledged that Hungary has very good financial and debt management, its external, mostly medium-term, and short-term debt of about $2 billion is high in per capita terms and prudent management requires a reduction. The severe credit crunch of 1982 and failure to attain a needed hard currency trade surplus required not only assistance of the Bank for International Settlements but an IMF standby loan. The latter approved a $600 million standby and commodity compensation credit in December 1982 that greatly helped meet the country's financial needs in 1983. A $200 million 3-year commercial loan was also signed with a group of international banks in April 1983. Two World Bank development loans totaling $240 million were to provide additional credit in 1983. The National Bank has also drawn on export-related credits, many of which have been previously available but not used. Hungary joined IMF and the World Bank [IBRD] in mid-1982.

Hungary and the GATT

Hungary became a contracting party to the GATT in 1973, and has participated actively in the GATT's activities since that time. In fact, during this past year, Mr. Janos Nyerges, the Hungarian Government's Special Representative to the International Economic Organizations, has served as a vice-chairman of the Contracting Parties. The delegation was fortunate to meet with Mr. Nyerges in Budapest. He indicated that while Hungary is not a signatory to the Subsidies Code, it is considering joining.

Hungary participated in the Tokyo round tariff negotiations and signed the tariff protocol. In addition, it has become a signatory to the following MTN codes: Standards, Customs Valuation, Licensing and Antidumping, as well as the International Arrangement on Meat and Dairy.

Due to the absence of statutory authority, the United States invoked GATT article XXXV, nonapplication of the agreement between particular contracting parties, at the time of Hungary's accession in 1973. The formal nonapplication of the GATT between the two countries remains in effect. However, the United States and Hungary apply the GATT bilaterally within the context of the 1978 United States-Hungarian Trade Agreement, except in those instances in which the provisions of the GATT conflict with the provisions of the bilateral agreement (most notably the extension of unconditional most-favored-nation treatment, as required by GATT article I).

II. Highlights of Meetings With Hungarian Officials

The major themes of discussion during meetings with officials were: Hungary's Economic Reform and application, extension of most-favored-nation [MFN] trade status beyond 1 year, the current financial situation, and improvement of bilateral trade. The purpose of this mission was to experience a wider spectrum of Hungarian life outside Budapest, beyond that normally seen in the capital. The Embassy noted that the provincial focus of this visit was bene-

ficial in expanding bilateral relations in areas that must often be limited because of lack of time and human resources.

While in Budapest on December 6, 1983, the delegation met with Deputy Prime Minister Jozsef Marjai, First Deputy President of the National Bank Janos Fekete, and Minister of Foreign Trade Peter Veress. The meeting with Marjai was very broadly based, touching on the economic reform, particularly the market forces introduced since 1979. In response to questions, Mr. Marjai explained such domestic policies as encouragement of private home and apartment ownership and the small enterpreneurial units that Hungary has been experimenting with the last 2 years. He also indicated that a new tax structure would be implemented in the future to give the Government greater control over the economy.

Mr. Fekete expanded on his well-known position for a return to fixed exchange rates in some sort of neo-Bretton Woods agreement, and the necessity to bring down international interest rates to a level of 6 or 7 percent a year, in order to stimulate world trade. He also elaborated on Hungary's financial liquidity problem and how the country has been coping. For instance, Hungary was the first country to secure cofinancing with commercial banks in connection with World Bank development loans. In his discussion, Mr. Fekete also emphasized the desirability of obtaining multiyear MFN treatment to encourage a long-term trade and investment agreement and provide business certainty.

A dinner in honor of the delegation hosted by Minister of Foreign Trade Veress on December 6, 1983, was attended by Deputy Minister of Foreign Trade Veress, Hungarian GATT Representative Janos Nyerges, and Hungarian Socialist Workers' Party Central Committee member and academician Rezso Nyers, among others. In his remarks, the Minister said that Hungary was interested in pursuing a realistic policy and wanted to be viewed no better or worse than it was. He stressed that trade should be a policy of natural advantage, and that Hungary was distressed by the problems that it had run up against in its trade relations with the EEC and others. GATT Representative Nyerges continued the theme that the United States and Hungary had a common cause in uniting against the Common Market agricultural subsidies, since both countries suffer because of the EEC agricultural policies. The problem, he admitted, was to decide if Hungary should sign the Subsidies Code as a nonmarket economy under article 15 or as a market economy. Under the current economic situation, the country stood about halfway between each system.

On December 5, the delegation visited Gyor and toured the RABA Works factory. One of Hungary's biggest manufacturers, RABA is the leading industrial complex in Western Hungary. It produces farm equipment and truck axles for export to the United States under license from U.S. companies.[7] The tour of this large and modern plant enabled the delegation to see Hungary's new economic mechanism at work and the international market in which Hungary competes.

---

[7] Formally known as the RABA Hungarian Railway Carriage and Machine Works, the company produced 23,500 diesel engines, 2,000 lorries and 300 pieces of heavy farm equipment in 1982. Overall, RABA manufactures 80–90 different types of front and rear axles.

RABA began cooperation with U.S. firms in 1974, when a contract with the American tractor manufacturer Steiger was concluded. As RABA became known, a new contract with International Harvester Co. [IHC] was signed. Under license, RABA presently manufacturers about 9 tons of front and rear axles for IHC. The contract will be in force for 10 years. In 1978, RABA signed a long-term contract with Eaton Corp. to supply front and rear axles. Recently, RABA is involved in a cooperative agreement with General Motors and Eaton. The basic provisions include: Joint development, large scale production, and delivery of truck axles by Eaton to GM. In this way, RABA products reach a number of country markets through the marketing activities of the U.S. companies.

On December 5, 1983, the delegation paid a courtesy call on the head of the Catholic Church in Hungary, Cardinal Lekai at the Episcopal See in Esztergom. On December 7, 1983, the group toured a modern fruit freezing plant near Gyongyos in Eger. At the winery, the manager, Mr. Dancz, said it was important for a company like his to maintain a quality product. He stressed that this could only be done if such companies as his were allowed to export directly to foreign customers, instead of through the export companies, which is the current arrangement.

In Debrecen on December 7, 1983, the U.S. Ambassador hosted a dinner that included eight members of the English Language Department of Lojos Kossuth University and the rector, several city, county, and party officials, and two businessmen. During the dinner, a round of speeches by the delegation and the Hungarian guests, translated by the university staff, insured a lively exchange of views and acted as an excellent introduction to this provincial center of learning, agriculture, and industry.

III. Prospects for Expanded Commercial Relations

Hungarian trade policy is directed at increasing hard currency exports while restraining imports. The Hungarian Government implemented over the past year several measures to reduce nonessential imports. Total United States-Hungarian trade grew modestly in 1983. Long-term prospects for U.S. exports are brightest in equipment and technology for agricultural production and food processing and for energy and resources management and conservation.

Normalized trade between the United States and Hungary has a potential for future expansion. Trade and economic cooperation between the United States and Hungary have developed through numerous bilaterial agreements, the most important of which is the trade agreement of 1978 reciprocally extending most-favored-nation [MFN] status. Credits have been available to Hungary through CCC and Eximbank programs to finance U.S. exports: CCC credits were extended to Hungary for the purchase of U.S. soymeal and cotton; Eximbank credits were available on a project-by-project basis. Despite significant increases, trade levels are still well below the full potential for United States-Hungarian trade.

While foreign trade is a State monopoly and the currency (forint) is still not freely convertible, Hungarian business style is remarkably close to that of Western business. Direct relationships can be

entered into with State companies and an increasing number of manufacturing enterprises have been given foreign trade rights, as industry moves to more decentralization. Nonetheless, establishing a joint venture, cooperation agreement or representative office can be a more lengthy, bureaucratically complicated procedure than a similar arrangement in a market economy country. Office spacing, housing, Hungarian national personnel, and other accommodations and services for commercial representation must be arranged through the Ministry of Finance.

Due to Hungarian economic concerns and traditional trading patterns with West European firms, U.S. firms should have patience and expect delays in having their products and companies accepted. In general, as with most business people, Hungarians prefer to deal with familiar firms and faces. With this shift toward greater economic restraint, the Hungarians are stressing countertrade, cooperation projects, and hard currency earning exports and projects. As defined by Hungarians, cooperation includes, but is not limited to: Long-term contracts for commission work; joint manufacture of parts or products; joint sales in third markets; joint research and development; and the provision by one partner of machinery, technology and know-how, in return for production and raw material inputs. The one essential element is collaboration for a long period of time, in which both parties undertake obligations.

The factors that may influence expansion of commercial relations include the following issues:

MFN

Legislation to extend multiyear most favored nation status to Hungary is currently pending in the Committee on Ways and Means, and strongly supported by Hungarian trade officials (H.R. 2770).

Import restrictions

The Hungarians are concerned about recent imposition of import restrictions, both quantitative restrictions and import tariff surcharges, taken under article XII: 2(a) of the GATT. The Hungarians cite the temporary nature of these measures and stated that if external conditions permit, improved export performance, not restrictions, would be the major means of rectifying Hungary's hard currency payments balance. The Hungarians note that they depend on the availability of credit, nonprotectionist measures of other countries, and Hungary's export performance. U.S. policy has attached importance to the nondiscriminatory character of import restrictions.

The Hungarians also expressed concern with U.S. import quotas on cheese from Hungary. They request a fair share of its cheese exports to the U.S. market. The United States has noted problems of expanding cheese quotas.

Bilateral investment

Bilateral investment treaty [BIT] program is under consideration. The bilateral interest would be in increasing investment between the two countries and to permit so-called offshore investment.

U.S. Government credits

As noted above, the Hungarians have used both Export-Import Bank and CCC credits. During 1983–84, the Hungarians expressed interest in receiving more CCC credits for soybeans.

U.S. export controls

U.S. Government export licensing policy is a differentiated policy for equipment exports to Hungary. The criteria being used, in accordance with U.S. regulations, includes protection of U.S. technology and assurance that technology transfer occurs only through authorized channels. New procedures that have been established, as well as those planned for the future, to expedite the processing of license applications.

The Hungarians have a list of pending license applications of interest to them. A periodic technical level dialog may be established to discuss Hungary's future technology needs from the United States, with a view toward facilitating an understanding on specific licensing possibilities and accelerating the licensing process.

Patents

There have been concerns of interested U.S. companies with regard to chemical patents that either have been settled or are in the process of being settled, for example, a recent decision of the Hungarian Supreme Court with regard to patentability of chemical compositions. In order to facilitate increased commercial relations the delegation feels it would be helpful if both sides were encouraged to resolve disputes concerning patents through consultations or other normal internationally recognized procedures including arbitration.

Trade facilitation

The volume of trade between the two countries could be substantially greater and more diversified if facilitated by both sides. U.S. exports to Hungary do not enjoy a natural, larger market share of Hungary's imports from the West. The modest growth of U.S. exports may be explained in part by Hungary's customary trading patterns with European countries, transportation costs and an unclear U.S. Government policy of differentiation toward Hungary.

Specific suggestions for increasing the U.S. trade share include: A continuing exchange of information on tenders offered by Hungarian foreign trade organizations [FTO's], export generating imports, investment plans, and major project developments. U.S. representatives have asked that the Ministry of Foreign Trade make known to the Hungarian FTO's the Hungarian Government's desire to expand trade and cooperation with the United States. Since a substantial volume of Hungarian imports from the United States are not recorded in U.S. data, the delegation feels it would be helpful if Hungarians accepted a U.S. offer to send a Census Bureau expert to Hungary to examine the Hungarian statistical methodology on imports from the United States and to comment on the differences between United States and Hungarian trade data.

Hungarians have also noted that the U.S. practice for issuance of B–1 business visas had changed. U.S. representatives have ex-

plained that while the law governing this procedure has been unchanged since 1952, the procedures may be unclear. Clarification of these procedures has been under consideration between the Ministry of Foreign Trade and the American Embassy.

The U.S. Embassy in Budapest is currently staffed with one senior commercial officer [SCO] and two nationals. The Commercial Development Office is located within the Embassy and is furnished with reference materials, telex, and copying facilities. The SCO is responsible for all business counseling and Commerce Department trade programs in Hungary.

The Commerce Department sponsors an exhibition annually at the Budapest Spring Fair. For the 1984–85 trade promotion calendar, Commerce is adding Agromasexpo, the major agricultural machinery trade fair in the country. In addition to trade fairs, technical sales seminars and video-catalog shows have been utilized. The SCO is developing a videotape library for the major U.S. industrial sectors.

Conclusions

The delegation is concerned that opportunities for U.S. businesses are diminishing in Hungary, in part due to the considerable presence and involvement of all the EC countries and Austria.

In spite of slow economic growth, serious financial problems, and the need for substantial consumer price increases, Hungary remains one of the most viable CMEA economies. The forint, the Hungarian currency, is a valuable currency in foreign and domestic trade. Major new reforms in the economy are being initiated and should be encouraged by the United States. With improving foreign markets, Hungarian competitiveness will allow them to benefit from an increasingly sound economy.

United States-Hungarian commercial relations have been expanding since the trade agreement. The United States should extend multiyear MFN to Hungary to improve business certainty and to further enhance our bilateral trade. The delegation strongly believes we should actively pursue a trade facilitation policy including more agriculture credits and guarantees. Such a policy not only serves to expand U.S. trade in a key market, but also enhances U.S. competitiveness worldwide.

ROMANIA

Overview

From December 8 to 10, 1983, the delegation visited the Socialist Republic of Romania. In addition to meetings in the capital city of Bucharest, the delegation had the opportunity to visit several towns in Transylvania.

The mission began at the Hungarian-Romanian border town of Oradea with a reception hosted by town officials. In Cluj-Napoca, a major educational and economic center in the northwest, the delegation attended a luncheon hosted by local party and government leaders. Similarly, in Poiana-Brasov, the delegation was again fortunate to meet with local officials and citizens. These meetings impressed the delegation with Romania's rich and flourishing cultural tradition, including folk art, music and dance, wood-carving, and ceramics.

Romania has been traditionally divided into the three regions of Wallachia, Moldavia, and Transylvania, plus a separate section along the Black Sea. With Poland, Romania shares most of the Soviet Union's European land border. The Carpathian Mountains, which are semi-circular in shape and run through Transylvania, contain much acreage of arable land. As the delegation observed, much of the upland area in these mountains has been cleared for farming and the remainder is used for grazing sheep. The delegation noted the enormous beauty and history of Transylvania and the influence of substantial ethnic minority groups and cultures (primarily Hungarian and German).

Over 60 percent of Romania's land is agricultural and, with a favorable climate and navigable river system, Romania is considered the breadbasket of Eastern Europe. Since Romania is a leading producer of wheat, corn, sugar beet, livestock, fruit, and vegetables, the agricultural sector is seen as a valuable source of hard-currency earnings. Beef, fresh vegetables, and other agricultural produce are currently exported rather than retained for the domestic markets as part of a severe austerity program designed to raise convertible currency. As a result, meat is now in short supply in the stores, and items such as sugar and cheese are rationed. Petroleum also plays a large part in Romania's economy, as do other materials such as natural gas, iron ore, lignite, copper, gold and silver. The most important manufacturing activity is in the areas of heavy industry, such as metal working and machine building, iron and steel output, food processing, textiles, metals, chemicals, wood and paper. The rapidly expanding machine-building industry now accounts for about 30 percent of gross national production.

Romania joined the International Monetary Fund and the World Bank in 1972 and is a member of the GATT. Romania was the first CMEA country to enter into a bilateral arrangment with the Euro-

pean Community. Although a member of the Warsaw Pact, Romania limits the participation of its armed forces in that body. There are no Soviet troops presently stationed in Romania.

Relations with the United States have expanded significantly in recent years. United States-Romanian relations have been built through frequent bilateral contacts and a series of seven summit and other high-level meetings under four U.S. administrations. The relationship now encompasses the full spectrum of interests and issues between the two countries—political, economic, cultural, scientific and technological, and humanitarian. In 1983, Secretary of State Shultz and Romanian Foreign Minister Andrei met three times. Minister Andrei and the Romanian Ambassador to the United States, Mircea Malitza, have also met with members of the Subcommittee on Trade in Washington. The visits to Bucharest of Vice President Bush in September 1983, and of Secretary Baldrige in October further underscored the importance the United States places on its relations with Romania and its desire to expand and strengthen those relations.

While supporting Romania's positions on a number of international questions, especially its independent stand vis-a-vis the U.S.S.R. and its active role in international bodies, the United States continues to seek improved performance by Romania in the emigration, social, and human rights fields. The domestic policy of Romania is at considerable variance from international norms and the spirit of the Helsinki agreement—to which both our countries are signatories. The Romanian Communist Party continues to maintain tight control over Romanian political, social, and cultural life. There is also a pervasive secret police presence in the country and there is little in the way of tolerated dissent.

Other than some inconsistencies in the area of human rights, there are no specific serious bilateral issues outstanding between the United States and Romanian Governments at this time. However, the depressed economic climate will continue for the foreseeable future to abridge the country's trade potential for the United States. Finally, the President of the Republic, Nicolae Ceausescu, noted in the West for his independent foreign policy, publicly called on both the United States and the Soviet Union to stop their missile deployments and has proposed a Baltic nuclear free zone.

I. United States-Romanian Trade Relations

Since most-favored-nation [MFN] status was extended to Romania in 1975, United States-Romanian economic and commercial relations have grown substantially. A mutual goal of $1 billion in total trade was reached in 1980 and 1981, with the United States enjoying a favorable balance throughout the seventies but slipping to a slight deficit in 1981 at the beginning of Romania's financial crisis. In 1982, United States-Romanian trade fell 47 percent to $562 million in two-way trade, according to the Department of Commerce. Most of the loss was due to Romania's debt crisis which sharply diminished the country's capacity to finance imports, but a weakened economy in the U.S. also lowered demand for Romania's exports. Although U.S. exports to Romania of manufactured goods remained stable, agriculture sales plummeted from about $368 mil-

lion in 1981 to $134 million and $118 million in 1982 and 1983, respectively. Romania's export losses to the United States were from lower sales of steel and refined petroleum products.

Despite the economic difficulties of the past 2 years, the two Governments have developed a satisfactory framework for trade expansion and economic cooperation. Both countries are working together to achieve trade levels of the $2 billion mark in two-way trade in the next few years. The foundation of the bilateral relationship is MFN treatment and the Joint American-Romanian Economic Commission which meets annually to discuss issues of mutual concern and to resolve trade problems. U.S. businesses are very active in Romania, although prolonged contract negotiations and countertrade arrangements tend to keep smaller firms out of the market.

Early in 1983, bilateral commercial relations were strained by Romania's implementation of the November 1982 decree requiring those wishing to emigrate to repay education costs, which placed Romania's MFN status in jeopardy. This caused uncertainty among those firms doing business with Romania. During extensive discussions throughout the spring, the United States emphasized the costs of losing MFN and the benefits of retaining it. A Presidential exchange of letters in late May provided assurances that the emigration tax would be dropped. On June 3, President Reagan recommended that Congress extend Romania's MFN for another year and Congress refrained from passing a resolution of disapproval. The cooperation which led to the resolution of the MFN crisis produced confidence and optimism on both sides which has continued.

UNITED STATES-ROMANIAN TRADE

[In millions of dollars]

	1981	1982	983
U.S. exports	503.9	223.2	185.7
U.S. imports	559.5	339.1	512.8
Trade turnover	1063.4	562.3	698.5

Source: U.S. Department of Commerce.

Trade in 1983 has shown strength despite some reluctance on the part of American importers to place orders during the uncertain period between March 4 and June 3, 1983, when it appeared the President would have to terminate Romania's MFN, consistent with the emigration provisions of the Trade Act of 1974. With anticipated financial stability in Romania and continuing recovery in the United States and elsewhere, prospects are good for improved trade activity in the years ahead. Due to Romania's continuing efforts to reduce its debts and the current strength of the U.S. dollar, Romania will probably run a surplus with the United States during 1984, a reversal of the norm throughout the 1970's and in 1980 when the United States ran substantial surpluses.

Romania's economy

As one of the poorest countries in Europe, Romania considers itself a developing country and has an estimated per capita income of $2,230. Romania's current target is to move into the medium de-

veloped category by the end of 1985. Although less well-off than its COMECON neighbors, Romania recorded the highest rate of economy growth in Eastern Europe in the decade of the 1970's. This growth was fueled by restraining consumption and reinvesting more than one-third of national income in development of the national economy. Since 1979, however, Romania's economic growth has slowed markedly. This slowdown in growth can be traced both to structural problems in the domestic economy and to a deterioration of Romania's external trade balance and current account.

Romania remains one of the most highly centralized and rigidly administered economies in Eastern Europe. A "new economic mechanism," introduced by the Romanian Government in 1978, has not led to a fundamental decentralization of decisionmaking and has not appreciably spurred productivity. New measures meant to improve performance of the economic system have been introduced since 1980. There have been several administrative reorganizations of agriculture, with new incentives being offered to agricultural producers, and a larger share of investment is being allocated to agriculture. In 1981, producer prices were restructured to bring them more closely into line with world prices. A similar adjustment of retail prices occurred in 1982.

Romania's trade balance, in equilibrium in 1976, worsened sharply in the late 1970's and Romania's hard currency debt grew. Romanian exports were hurt by soft markets in the West for Romanian products because of inadequate quality and the world recession. A key problem in the trade imbalance has been Romania's growing dependence on imports of oil and other raw materials which has been exacerbated by the inability of industry to convert from oil-fired to coal-fired production. Romania became a net importer of oil in the 1970's, with domestic production falling from 14.7 million metric tons in 1976 to 11.5–12.9 million metric tons annually in 1980–81. The 1981–85 plan projects that domestic oil production will be increased slightly to 12.5 million metric tons annually and that oil imports are being restrained to an average of 12.5 million metric tons a year. Official policy of energy self-sufficiency by 1990 seems questionable.

A crisis in Romania's international finances at the end of 1981 was brought about by the inability to roll-over short-term debt which comprised a relatively high proportion of Romania's total external indebtedness (about $10 billion in 1981). Although rescheduling agreements reached in 1982 and 1983 provided some financial relief, Romanian import capacity remains severely constrained. This is due partly to IMF requirements that imports be reduced, partly because of the inability to increase productivity in order to generate foreign exchange through exports, and partly to President Ceausescu's unilateral decision to retire the country's debt at a much more rapid rate than would otherwise be required (the goal is to reduce the debt by 25 percent over the next year).

Financial factors continue to play a major role in the evolution of the Romanian economic situation. An agreement was reached with the IMF, commercial banks, and debtor countries to reschedule 80 percent of principal due in 1982 over 6½ years with 3 years grace. Further rescheduling of $800 million was achieved in 1983 and debt payments for 1983 and 1984 appear to be manageable.

Drastic cutting of imports resulted in a spectacular improvement in overall balance of trade of about $200 million in 1981 to more than $1.5 billion in 1982. The improvement in 1983 in the trade balance came, however, at significant cost to other aspects of the national economy; which was deprived of many imports necessary for normal functioning of industry and agriculture, as well as consumer goods. Exports of food products had a direct impact on the quality of diet of the Romanian citizens.

Countertrade, buy back, and cooperative arrangements now occupy a prominent role in the Romanian approach to foreign trade, and trade expansion is usually thought of in terms of increased exports, not additional imports. Romania wants to maintain the current trade surplus and considers this only fair since the United States has benefited from the $1.6 billion surplus over the past 10 years. Also Romania has increased its trade with CEMA countries to meet import needs without expending hard currency. Romanian trade with its CEMA partners fell from 67 to 35 percent of its total trade between 1960 and 1979, but is rising again.

Growth in national income, in spite of a relatively weak performance in agriculture, was estimated to be 3.6 percent in 1983 and, while the rate of growth in the production of finished industrial goods rebounded after 5 poor years.[1] Development of indigenous supplies of fuel and raw materials remains a top priority of Romanian economic policy, as does conservation and improvement of the efficiency of energy use in the national economy. Extraordinary efforts are being undertaken to increase domestic production of coal, of which totaled 37,900,000 tons in 1982, and intensive efforts are also being made to increase the domestic production of natural gas and petroleum. The rate of new investment continues to fall, but investment has increased in projects aimed at import substitution.

Agriculture

The value of agricultural production in 1982 increased 7.5 percent over 1981 following recent declines. For the first time in 1982, the goal of production of 1 ton of grain per inhabitant of Romania—22,335,000 tons—was reportedly reached. A drought in 1983 made the performance uncertain but likely less than 1982. Although it is stated policy to seek the improvement of agricultural production in part by increasing investment, investment in 1982 of 36.3 billion lei was marginally less in nominal terms than 1981 investment and substantially less in real terms. The Romania authorities have made fulfillment of state delivery obligations a condition of access to purchase by rural residents of various basic staple foods including cooking oil, sugar, flour, and in some cases bread. Meat and livestock output in 1982 declined rather significantly. Serious difficulties in the livestock sector occasioned by cuts in imported feed, vitamins, minerals, and pharmaceuticals will have to be overcome before recovery can proceed.

Reflecting the importance of bilateral agricultural trade, a full-time agricultual attaché from the Foreign Agricultural Service was posted to the Embassy in January 1979 to administer the joint co-

[1] Wharton Economic Forecasting Associates, "Romanian Economic Performance During the First Half of 1983," Current Analysis No. 73, Sept. 23, 1983.

operation agreements between the Romanian Ministry of Agriculture and the U.S. Government. U.S. agricultural groups which have agreements with Romania include the American Soybean Association, the U.S. Feed Grains Council, and the U.S. Wheat Associates. Groups having some contact include the Holstein Association of America and Cotton Council International. Other U.S. business interests are involved in selling cattle semen, breeding swine, and numerous equipment items for production, slaughtering, and processing purposes. The activities under these joint agreements include technical seminars, expert onsite technical consultations, visits of Romanian specialists to the United States and Western and Eastern Europe, and participation of Romanian agricultural specialists in international meetings.

Consumer economy

Romania's consumer economy is currently characterized by shortages of a wide range of basic food and manufactured items, and the situation at present is stagnating or gradually deteriorating in part because of the restrictions on Western imports. Rationing of a number of basic food items remains in force formally or informally throughout most of the country and, even though industrial wages have increased, the standard of living continues to fall because of sharp increases in the price of food and fuel. The Romanian workweek—the longest in Eastern Europe—stretches from Monday to Saturday. In July 1982, it was reduced from 48 to 46 hours and is to be reduced to 44 hours in 1985.

Extreme measures to conserve energy have reduced the supply of heat and hot water to households and has produced dimly lit workplaces, streets, and homes. In a recent directive, President Ceausescu required a 50-percent cut in the use of electricity although industrial users are given high priority in the energy distribution for both oil and electricity. The harsh economic conditions were clearly in evidence as members of the delegation visited Bucharest and traveled in the countryside. Darkened factories, some of which did not appear to be operating fully, were marred by broken window panes and stinging discharges of pollutants. Occasional lines of cars for gasoline and of people for food were in evidence both in the city and in the countryside.

Romania and the GATT

Romania became a contracting party to the GATT in 1971. Since that time, Romania has taken a fairly active role in the GATT, particularly with regard to issues affecting developing countries. Romania actively participated in the Tokyo round negotiations and signed the tariff protocol, although no other GATT member chose to enter into tariff negotiations with it. Romania has become a member of the Standards Code, the Customs Valuation Code, the Licensing Code, the Antidumping Code, and the Aircraft Code, as well as the international arrangements on meat and dairy. As with Hungary, the United States invoked GATT article XXXV at the time of Romania's accession in 1971. This formal nonapplication remains in effect. However, the 1975 United States-Romanian bilateral trade agreement provides for the bilateral application of the GATT between the two countries.

Human rights, emigration and minorities

Romanian society operates within a framework of strict and highly centralized party, bureaucratic, and internal security control. The apparatus of power has changed less in Communist Romania than in most other East European countries, but adjustments in the economy and society controlled by this apparatus continues to be more stringent than elsewhere in the region. The authorities consistently stress the need for short-term sacrifice in the interest of rapid, continuing industrial development. Wages and living standards are rising, albeit slowly, and a strong national consciousness is stimulated by a generally popular independent foreign policy. Romania has not experienced the internal upheavals which have punctuated the postwar history of much of the rest of Eastern Europe.

Romanian national unity has been accompanied by the continued vitality of minority cultures and languages, and religion retains a strong influence in Romanian life. Romania's officially enumerated 1.7 million (but possibly as many as 2 million) Magyars form the largest minority group in non-Soviet Eastern Europe. Together with up to 300,000 ethnic Germans and smaller numbers of Jews, Ukrainians, Turks, Serbs, Russians, Croats, Armenians, and Bulgars, they make up about 11.9 percent of the country's population. Although there have been some recent manifestations of discontent among Magyars who profess to fear ethnic assimilation through the Romanianization of the educational process and cultural life; the Romanian Government has followed what it describes as a nondiscriminatory policy toward the national minorities allowing for some degree of cultural autonomy. However, the goal is eventual cultural homogenization along with economic integration.

Religion in Romania generally follows ethnic lines, with about 80 percent of the population nominally belonging to the Romanian Orthodox Church. The Romanian Government recognizes 13 other religious denominations, including Catholics, Lutherans, Pentecostals, Baptists, Jews, and Seventh Day Adventists. However, the Orthodox Church, with strongly nationalist traditions, is clearly the country's most important religious body. Religious organizations are regulated through the Government's Department of Cults. Although religion is subjected to periodic campaigns against "mysticism" and "obscurantism," religious observances are publicly accepted if not encouraged. However, those who openly oppose government regulation of and restrictions on religious activities are singled out for particularly harsh treatment.

The Romanian press, radio, and television facilities are under party and state control. Thirty-four daily newspapers are published—the most important being the Romanian Communist Party's "Scinteia" (circulation 1½ million) and the Socialist Union Front's "Romania Libera" (circulation 350,000). Foreign newspapers and periodicals are not available for public purchase in Romania, Western radio stations including the Voice of America and Radio Free Europe are popular sources of information and outside viewpoints, and their broadcasts are not jammed. To control further the flow of printed material, the Government imposed a regulation in March requiring that all citizens register their typewrit-

ers with the local police and obtain permission from the police to keep typewriters already in their possession or to purchase new ones. The regulation also severely restricts the ownership and use of duplicating machines and related materials.[2]

In Romania, women are constitutionally guaranteed the same rights and privileges as men. The Government policy is to upgrade the role of women in the society with specific policies in the areas of education, access to employment and comparable wages. As a result, women are employed in virtually all sectors of the economy and there is equal opportunity in education, but at the senior levels of responsibility and authority they appear in far smaller numbers. Many women are to be found in the most menial jobs, such as agricultural stoop labor, street cleaning, and snow removal.[3]

Since World War II, the Romanian authorities have allowed considerable emigration of ethnic Germans to the Federal Republic of Germany and of Jews to Israel, however it is largely for family reunification purposes. Jewish cultural and religious life has kept its vitality in a generally aging and dwindling community. Emigration of perhaps 300,000 to 400,000 Jews to Israel since the end of World War II has reduced the surviving Romanian Jewish community by over 90 percent, although Jewish emigration has recently slowed. In recent years, over 10,000 ethnic Germans have annually departed for the Federal Republic of Germany. Approximately 1,300 and 14,000 people left for Israel and the Federal Republic of Germany, respectively, in 1983.

Permanent departures of Romanians to the United States have risen from virtually none during the 1950's to the 1983 total of about 3,500. The Embassy makes quarterly respresentations to the Ministry of Foreign Affairs on binational marriage cases, qualified U.S. visa applicants, and dual nationals seeking to go to the United States. Also, large numbers of congressional representations are made at the Romanian Embassy in Washington. Romanian performance on emigration has been mixed.

The Romanian Government emphatically opposes emigration in principle, with family reunification being the principle acceptable reason for departure. The Romanian authorities discourage emigration through a variety of means, including an extremely complicated and bureaucratic visa and passport application process, propaganda articles, and regulations which effectively obligate emigrants to relinquish all property and belongings before receiving passports. Currency regulations and tourist passport restrictions meanwhile curb the number of Romanians traveling to the United States for family visits or tourism. Overall, however, Romanian performance in granting passports to would-be emigrants to the United States and approving binational marriages has shown a substantial improvement since MFN was first extended in 1975.

---

[2] Country Reports on Human Rights Practices for 1983, Department of State Report to the House Committee on Foreign Affairs.

[3] Ibid.

II. Highlights of Meetings With Romanian Officials

President Nicolae Ceausescu

The delegation met with President Ceausescu for almost 2 hours with discussions centering on bilateral trade and Romania's economic development, the effect of the superpower confrontation over arms control on world peace, and treatment of religious sects. Although serious concerns were raised about missile deployments in Europe and the breakdown of the arms talks in Geneva, the tone of the discussions was very positive and optimistic with respect to future bilateral relations. The President also expressed confidence in the recovery of his country's economy, which was very little in evidence, and spoke in strong terms about extracting Romania from the grip of foreign debt.

The atmosphere of the meeting reflected a shared belief that the relationship between the United States and Romania is on the upswing. This attitude had been reinforced by several events over the last year that, along with the delegation's visit, demonstrated the importance of the bilateral relationship both economically and politically. The first was the resolution of the human rights dispute that arose when emigrants from Romania were required to reimburse the state for their educational expenses before departure, and led to a pledge from President Reagan that MFN would be denied to Romania if the tax was not removed. It was agreed in June 1983 that the tax would be repealed. More recently, Vice President Bush, in a speech on foreign policy in Vienna on September 21, praised Romania's continued independence from the Soviet Union, especially President Ceausescu's refusal to allow Soviet troops or missiles to be deployed on Romanian soil. Finally, Commerce Secretary Malcolm Baldrige visited Bucharest for the annual United States-Romanian economic meeting October 4–7 and, together with Foreign Trade Minister Basile Pungan, set an optimistic goal of expanding bilateral trade to $2 billion over the next few years.

Chairman Gibbons opened the meeting by noting the recent progress in bilateral relations which began with lifting the education tax, and thanked President Ceausescu for promoting cooperation with the United States in ways that were mutually beneficial. Although the United States wants to make more progress in the area of bilateral trade, multiyear extension of MFN treatment would be difficult to achieve in an election year and at a time when the U.S. trade deficit will likely exceed $80 billion. Nevertheless, opportunities for trade expansion between the two countries should be explored. President Ceausescu emphasized that, while he understood the "preoccupation" of the Ways and Means Committee with MFN treatment for Romania and the need to explain the basis for such favored treatment to the American public, the trade relationship should be based on equality and mutual benefit. MFN, and the attendant review of emigration practices, should not be used to interfere in the internal affairs of Romania.

President Ceausescu reiterated that the development of bilateral relations, in order to be stable, should be established on a long-term basis. The extension of MFN should have no time limit and no conditions which involve the United States in the internal af-

fairs of Romania. Although admiring the way Congress tries to exert its influence over this matter, and over other major issues such as disarmament, President Ceausescu emphasized that the independence of Romania must be recognized and that the bilateral relationship should be built on mutual understanding rather than interference. Further areas of cooperation must be explored in order to maintain the excellent relationship that has existed for a long time, but they must be pursued in the spirit of independence and equality.

Chairman Gibbons reminded President Ceausescu that, under the Constitution, Congress rather the executive branch has been empowered with authority over international trade. Since Congress represents broad constituencies, trade policies and the practices of other governments that impact on U.S. trade tend to be cross-examined and scrutinized to a much greater extent than is the case in other countries. Congress has a responsibility to answer the concerns expressed by the public, and therefore, must ask questions of Romania that are sometimes difficult and appear to be interference.

One such question involves religious freedom and complaints raised in the United States and by international bodies that the Romanian Government discriminates against, and in some instances, persecutes, evangelical sects such as the Baptists. Ceausescu clarified Romania's policy toward religious groups and professed "full liberty" for the 14 religious cults recognized by the Government. All religious cults have to be registered but beyond that, according to Ceausescu, their activities are not controlled and many of their representatives serve in the Grand National Assembly or hold other high positions in the Government. He noted that several Baptist sects were recognized by the Government and another one was not needed; their system of established cults was working well and other governments should not interfere in this internal matter. However, evidence persists that certain sects suffer hardship because of the Romanian Government's strict policies.

The discussions moved to an assessment of Romania's economy over the next several years and whether Romania will emerge from its debt crisis sufficiently to be able to absorb U.S. exports as well as to increase production and sell more in the United States. As noted earlier, Ceausescu was very optimistic about Romania's bright economic picture.[4] Ceausescu felt that Romania was the competitive equal to the United States in grains and steel production, and that Romania's agriculture had not been neglected as is often claimed in the West. In short, Ceausescu indicated that Romania's economy was recovering rapidly with the rate of development at 5 percent in 1983 and that gross material product was expected to expand, along with the standard of living, by 7 percent in 1984. The President did concede that the effect of the world recession was complicated in Romania by excessively high interest rates and the fact that too many enterprises were allowed to borrow money abroad through Romanian Government guarantees. Now,

[4] Statistics available in the West, and the evidence visible to delegation members during their visit to Romania, do not support Ceausescu's optimistic assessment.

no companies are permitted to borrow from foreign lenders and only with Presidential approval may Romania incur hard currency debts.

Ceausescu alluded to other internal difficulties and said that backwardness in some areas was not the result of a faulty economic plan but because the plan was not fulfilled. When oil prices skyrocketed, strong measures were taken in order to give priority to energy development at the expense of certain industrial expansion. Now, strong measures were being taken to free Romania from foreign debt. Also, agriculture has been targeted as a high development priority. Over the last 15 years, Romania has reportedly irrigated 20 percent of its arable land and has become a major producer of grain. Romania now has a target of irrigating 60 percent of its arable land by 1990, a goal recognized as difficult but essential to Romania's long-term economic health. In prior years, Romania preferred to emphasize industrial development in order to take advantage of perceived foreign exchange earning prospects.

Ceausescu pointed to two other goals that will contribute to further industrial growth in Romania and an increase in the standard of living of 7 to 8 percent over the next few years. One is an improvement in the quality of products in order to increase the demand for Romania's goods abroad. The second is an improvement in Romania's technical capacity that will necessitate an increase in high technology imports from the West. Romania has already developed special programs to increase productivity such as tieing wages and bonuses to output and eliminating the ceiling on bonuses. Also, a certain amount of worker ownership is permitted. Ceausescu claimed that Romania has decreased her military spending. He stated that Romania is committed to an efficient, productive society with increasing high technology capability; the only difference from the United States is the way Romania distributes the benefits.

Ceausescu deplored the deployment of U.S. missiles in Western Europe and the subsequent reaction of the Soviet Union to deploy additional missiles in Central European nations. In Ceausescu's view, the United States should put more emphasis on continued negotiations rather than pressing many issues at one time. Ceausescu believed agreement was still possible if the United States rolled back its missile deployment, but strongly stated his long-standing position that both sides need to reduce armaments and cease confrontational policies. In addition to the lack of communications between the leaders of the United States and Soviet Union, there is a lack of understanding between the peoples of the two countries. It needs to be understood that both populations want peace and friendship. Ceausescu feared that U.S. policies have encouraged those leaders in both countries who wish to operate on strength; U.S. policies should seek to build confidence and assure peace through negotiation rather than confrontation.

The meeting concluded with a return to the issue of MFN treatment and the ties to trade of human rights and emigration. Ceausescu encouraged the members not to raise artificial problems and to recognize the extent to which U.S. firms do business in Romania. Both sides should seek solutions to trade problems without interfering in the internal affairs of the other. Ceausescu pointed

out that Romania was prepared to allow 1,000 citizens per year to leave for the United States; however, the United States has not been willing to take so many. In summary, Ceausescu stressed that problems should be viewed in their entire complexity and, although both countries were committed to improving the trade and economic relationship, peace is essential for trade.

Minister of Foreign Trade Vasile Pungan and Minister of Foreign Affairs Stefan Andrei

The members met separately with Ministers Pungan and Andrei in sessions that were abbreviated because of the extended length of time spent with President Ceausescu. Many of the same themes were discussed, but more emphasis was placed on the trade relationship itself and possibilities for future trade expansion. Pungan, a very direct and business-minded official, was encouraged by Romania's economic potential now that its internal financial problems had been "resolved." He reiterated the expectation that Romania's industry would expand by 5 percent this year with higher rates of growth over the next few years. This would serve as the basis for substantial growth in bilateral trade in 1984 and thereafter. The recession and debt crisis had served to highlight the importance of the bilateral relationship and to point to problems that could have been settled earlier had the relationship been taken more seriously; both sides should step up efforts to limit adverse effects of outside forces on two-way trade.

Recognizing that United States-Romanian trade had dropped off dramatically in the last year, Pungan outlined five causes: (1) the world recession; (2) the large cumulative trade deficit Romania has amassed with the United States since MFN was extended in 1975; (3) problems marketing Romanian goods in the United States because the recession created a shrinking demand there and Romanian firms did not take action to stay in the market; (4) U.S. firms were slow to accept new forms of trade and investment such as countertrade, joint ventures and cooperative arrangements in third markets; and (5) restrictive trade measures on the part of the United States such as Eximbank loan suspension; textile quotas, MFN annual review, and restrictive application of the GSP program. Since most bilateral problems have now been resolved, the two sides can be more inventive in developing trade initiatives.

Multiyear MFN, Pungan agreed, would contribute to smoother and more confident trade relations as firms entered longer term contracts and joint ventures. Many companies negotiating for large industrial units were reticent about entering into long-term projects, not just because MFN is extended on a year-by-year basis but also because U.S. export licensing requirements are complicated and unpredictable. Firms cannot always give assurances that followup components, or even replacement parts, can be shipped. Pungan also urged better product coverage under GSP and more flexible treatment under MFA bilateral textile agreements. He elaborated on Romania's interest in entering joint ventures with U.S. firms for projects in third markets. Although Romania has good relations with many developing countries, especially in the Middle East and Africa, Romanian firms were not in a position by

themselves to overcome infrastructure problems often necessary for successful investment in third markets.

Asked whether U.S. dumping and countervailing duty laws posed special problems or were significantly different than similar laws in other countries, Pungan responded that a better understanding was needed. Romania is not seeking special rules that permit Romanian firms to dump; however, the U.S. system of comparing nonmarket economies to surrogate market economies was confusing and unpredictable. He noted that the United States-Romanian Joint Economic Commission has been discussing improved treatment for Romania under U.S. dumping laws. Another area of complaint was the apparent ease with which CVD and dumping cases were accepted. Referring to the dumping case against Romanian steel plate, where Finland was used as the surrogate country, Pungan objected to the fait accompli nature of U.S. procedures. Such problems could be solved through discussions if Romania were informed in time, as usually happens when the EC raises questions of dumping or subsidized sales in their market.

Pungan admitted that it had not been a good year for agriculture, but he expected a better year in 1984. Although Romania had experienced a recent drought, any adverse effects of the dry weather probably would not be extensive and further problems would be forestalled as Romania increases its irrigated lands from over 2 million hectares to 4 million hectares by 1985. Congressman Bereuter questioned whether Romania's purchases of U.S. animal feeds and protein feed supplements could reach their full potential through barter arrangements now favored by Romania. Pungan responded that, although Romania did not invent countertrade, barter arrangements were necessary now that President Ceausescu had made a categorial decision to freeze foreign loans and reduce the country's foreign debt by 25 percent by 1985. Romania also would seek to reverse the traditional trade surplus enjoyed by the United States so that the balance of trade would favor Romania until the country's debts can be repaid. Congressman Bereuter suggested that technical and scientific joint ventures in the area of the soybean production would offer an example of a cooperative trade initiative that could lead to a substantial mutual benefits.

Foreign Minister Andrei opened his remarks with a discussion of U.S. missile deployments and Soviet counterdeployments. Romania's position is to oppose both deployments and to call for a rollback of the ones long in place. The most important objective is to achieve an agreement that would halt the deployments and to reverse the current tendency toward arms inflation; for the moment, French and British missiles need not be counted but must be considered later in computing the general balance of forces. After an initial agreement, Romania would favor talks leading to a mutual and sustained reduction in forces based on a balance between the parties (blocs). Recognizing that there are greater capabilities for destruction at present than there are means of guaranteeing food production, Andrei argued that as many channels of negotiations as possible should remain open.

Andrei, who has long been active in the annual MFN renewal process and who was instrumental in getting the education tax issue resolved, added his voice to those advocating multiyear MFN

treatment. However, he too stressed that MFN is a mutal arrangement and should not serve as the basis for interference in a country's internal affairs. Andrei also complained of strict U.S. export licensing requirements but noted that Control Data finally received a license for its shipment of computer disc drives. Congressman Conable expressed the hope that, through improved bilateral relations with the United States, Romania could serve as a bridge between the East and West as trade led to broader communication and understanding. Andrei agreed and stated that Romania was also interested in bridging the gap between developed and developing countries where the tensions are becoming greater.[5]

Grand National Assembly

The delegation visit to Romania was hosted by the Grand National Assembly [GNA], the unicameral legislative branch of the Romanian Government. Members of the GNA were very aware of the active role of the Ways and Means Committee in the annual review of MFN treatment, and GNA members joined in advocating multiyear extension. They highlighted the successes of the United States-Romania Economic Council and praised the goal of expanding two-way trade by $2 billion over the next few years. Multiyear or permanent MFN treatment would serve as the basis for this trade expansion. Delegation members were more cautious about the level of potential trade expansion and reminded the group that Romania must buy as well as sell.

Raising as an example the joint venture with General Electric for nuclear-powered generation, GNA members complained of the tough U.S. licensing procedures. They urged more favorable treatment for Romania with respect to export licenses and emphasized that Romania uses imported technology exclusively for development purposes. Restrictions that apply to the U.S.S.R. should not be automatically expanded to Romania. Mr. Frenzel reminded GNA members that the United States has given Romania a preferred position among CMEA countries in the licensing area. Also, the Export Administration Act is currently being renewed by the Congress, and many members believe that licensing requirements could be eased, especially for those products that were available from other Western sources.

Chairman Gibbons expressed concern that dramatic steps to reduce the debt has created a heavy burden for the Romanian people in their everyday life. Delegation members had noticed the electrical shortages as well as the lines of people waiting to purchase food and wondered whether it was necessary to cut into consumer needs so drastically. GNA members responded that the Romanian economy had been stabilized and was now recovering, and that could not have been done without taking care of the debt problem. They admitted that past rapid growth had caused some inefficiencies and that, since Romania was a poor raw material country, the country borrowed heavily to support this growth and meet

---

[5] Romania currently has diplomatic relations with 128 countries and is the only Warsaw Pact member to have normal relations with Israel. In the economic area, Romania's trade with the Communist world has steadily declined from a postwar high of 83 percent, and Romania has significantly expanded its economic ties with the Third World.

energy needs. The situation has improved since the debt has been rescheduled.

Chairman Gibbons raised the complaints he has been hearing from religious groups about discrimination and the freedom to practice their beliefs. He also raised the concern about the new law that typewriters had to be registered. GNA members responded that officially recognized religious cults were free to perform as they wished and that all 14 registered cults were represented in the assembly. However, some groups that claimed to be religious actually were encouraging antisocial and antistate activities in violation of their traditions. It was noted that last year the number of the people taking part in religious activity grew and that all church buildings are in excellent condition or have expanded.[6] With respect to the typewriter issue, GNA members viewed the law as an effort to develop information about typewriters in the country and was not designed to stiffle criticism.

III. Prospects for Improved Commercial Relations

With anticipated financial stability in Romania and continued recovery in the United States, coupled with an interested and active U.S. business presence in Romania, prospects are good for further trade growth in the next few years. However, the seriousness of the economic problems in Romania and the structural or systemic nature of some of these problems will make it extremely difficult to reach broad trade expansion goals, such as doubling two-way trade from $1 to $2 billion in a few years' time. Also, Romania appears to be committed to maintaining a trade surplus with the United States, which may dampen trade flows as U.S. firms are forced to become marketers of Romanian goods under countertrade arrangements. A number of other issues are relevant to the possible expansion of bilateral trade.

MFN

The Romanian Government continues to seek a multiyear MFN arrangement. During this Congress, Chairman Gibbons introduced legislation to extend MFN treatment to Hungary and the People's Republic of China for a 5-year period; Messrs. Jones, Conable, and Frenzel, all members of the delegation, are cosponsors of the measure. Some discussion has occurred about including Romania in such legislation, but certain political problems remain because of continued allegations of human rights violations and because of the recent actions by the Romanian Government in announcing the education tax that was eventually withdrawn. Furthermore, it is always difficult during an election year to reverse a policy that has a substantial degree of controversy associated with it. However, clearly the same improvements in human rights and emigration which promote annual renewal also heighten prospects for multiyear MFN.

Since 1976, the Subcommittee on Trade has held public hearings each year to review Romanian emigration and trade performances

---

[6] The subcommittee had received complaints a couple of years ago that the Romanian Government was delaying the repair of church buildings damaged or destroyed in the severe 1977 earthquake.

in connection with the annual review of the Presidential recommendation to continue MFN treatment. We repeat here recent cautionary report language by the Committee on Ways and Means on the resolution extending MFN for Romania:

> The committee is of the view that extension of MFN trading status for Romania for another year is important to continued development and improvement of U.S. economic and political relations with Romania.
>
> It is the understanding of the committee from correspondence received from the Embassy of Romania in Washington that applications for emigration from Romania are processed in a period not longer than 6 months. Further, the Embassy reports that applicants for emigration are not subject to any kind of discrimination, nor are they dismissed from the practice of their professions * * *.
>
> The committee will continue to monitor the implementation of these assurances carefully during the next year. The committee would not wish to see any deterioration in the progress that has been made to date by Romania in improving emigration procedures and performance. Further, a reimposition of the education repayment decree, or similar measure, would clearly conflict in the view of the committee, with the letter and spirit of section 402 of the Trade Act of 1974.[7]

Export controls

Although Romania is treated for export control purposes more favorably than any other East European country except Yugoslavia, the general tightening of controls raises concern that Romania will not be able to purchase American technology important to its economic advancement. Chief export licensing concerns relate to a proposed Romanian Landsat ground station and a proposal under which the Romanian-Control Data joint venture in Bucharest would be permitted to assemble 200 megabyte disc drives. Both of the issues are under review because they raise serious national security concerns. Secretary Baldrige recently assured President Ceausescu that all cases would receive a full and fair hearing.

Debts and credits

Romania's firm implementation of an IMF stabilization program plus the debt relief obtained from reschedulings in 1982 and 1983 have created conditions in which foreign banks and governments are at least willing to consider credit requests from Romania. U.S. Government credit agencies are encouraged by Romania's recent financial economic progress, but have not received any new credit requests from Romania. Romania's policy appears firm that it will not seek foreign credits until its debt problems are under control, and the leadership seems to have a strong aversion to returning to even a limited credit import financing status with Western banks.

---

[7] H. Rept. 98-315 (1983) at 5.

Import policies

Since export earnings are key to Romania's import and debt-service capabilities, the Romanian Government views with concern U.S. import regulations which limit Romanian sales in the United States in several key areas:

1. Textiles.—Textile products are Romania's second largest export to the United States ($66 million in 1982), after refined petroleum. Romania made periodic requests for increases in limits on textile exports to the United States regulated by bilaterial textile agreements. There is very little flexibility while the domestic industry is experiencing near zero growth. The Committee for Implementation of Textile Agreements discusses and reviews each request but has not found it could respond favorably to specific Romanian requests.

2. Carbon steel plate.—The Commerce Department's antidumping investigation of imports of Romanian carbon steel plate [CSP] was suspended by agreement with Romania on January 4, 1983. The Romanians are dissatisfied because the agreed price (currently $317 per ton) prohibits Romania from competing in our market. They have expressed an interest in reviewing the agreement. Adjustments in the method of estimating foreign market value, changing the surrogate country from Finland, or reevaluating costs might bring the price closer to the $240 to $260 per ton Romania regards as competitive.

Trade facilitation

The Joint Economic Commission [JEC] is a government-to-government body which meets annually to promote the development of bilateral trade. The Joint Commission was founded during Romanian President Nicolae Ceausescu's visit to the United States in December 1973. The Secretary of Commerce chairs the U.S. section of the Commission and a Deputy Assistant Secretary of Commerce serves as its executive secretary. The Romanian section is headed by the Minister of Foreign Trade and International Economic Cooperation. Currently, Vasile Pungan occupies this position.

The Commission has met nine times, alternating between Bucharest and Washington, and has spawned numerous working groups, experts meetings and working level visits by trade officials of both countries. Over the years a number of firms have signed contracts or agreements in conjunction with the Commission. In several instances negotiations were accelerated by the Romanian side and agreements concluded because of up-coming Commission sessions.

The ninth session of the Commission was held in Bucharest on October 7–14, 1983. Representatives of about 25 American companies participated directly in the working groups and were observers during the Commission plenary. The Commerce Department sponsored a seminar for Romanian trade officials of marketing in the United States, and initiated a joint productivity program designed to enhance Romania's development efforts through increased purchases of U.S. manufactured goods. During the session, Secretary Baldrige and Minister Pungan agreed to work toward a level of bilateral trade of $2 billion in the next few years.

Major trade opportunities for American companies are in the areas related to agricultural productivity, including livestock and irrigation projects, and in energy development, including offshore oil drilling, nuclear powerplant construction and technology to improve the efficiency of traditional energy generating facilities. The number of trade opportunities created by major projects has been low during 1981–83 due to an investment moratorium in Romania connected with the austere stabilization.

Romania and the GSP

Romania is concerned about its continued designation as a beneficiary country under the generalized system of preferences [GSP]. Eligible imports from Romania have been eligible for duty-free treatment under the GSP since the program's inception in 1976. According to the U.S. Trade Representative's office, GSP eligible imports from Romania in 1982 were valued at $60.8 million or 18 percent of total U.S. imports from Romania. GSP imports declined sharply from the 1981 level of $115 million. Romania continues to maximize benefits of the GSP with 90 percent of all GSP eligible articles receiving duty-free treatment in 1982. The remaining 10 percent was ineligible due to administrative reasons, such as lack of appropriate documentation or inability to meet the 35 percent value-added requirements of the GSP. Leading GSP imports from Romania in 1982 were: wood furniture and parts ($15 million); pumps ($3.7 million); and railway parts and kits ($3.7 million). The GSP program terminates by statute on January 3, 1985, unless renewal legislation is adopted this year.

Conclusions

The delegation is concerned that opportunities for U.S. businesses are diminishing in Romania, in part due to the considerable presence and involvement of France, the Federal Republic of Germany, and Japan.

Romania, the growth leader of the 1970's, is in serious economic trouble in the 1980's; food shortages, credit crises, energy deficiencies all plague the economy. The rescheduling crisis led to severe austerity and imblances in the Romanian economy. United States-Romanian trade, which receded during the credit and education tax crises, is now returning to previous highs. An optimistic goal of expanding bilateral trade to $2 billion likely will be limited by persistent economic difficulties. The performance of Romania in the human rights field will continue to influence trade liberalization efforts.

The delegation strongly believes it is good trade policy to facilitate growth of bilateral commercial relations despite temporary periods of low potential. Such a policy serves to keep the United States in a key market and improves U.S. competitiveness worldwide.

BULGARIA

Overview

The delegation visited the People's Republic of Bulgaria for meetings on trade and economic issues in the capital of Sofia. The delegation was fortunate to meet with a variety of high-level Bulgarian officials, including members of the Politburo and the National Assembly. The highlight of the visit was a 2½ hour conference with the Bulgarian head of state, the Chairman of the Council of State and general secretary of the Bulgarian Communist Party, Todor Zhivkov. At 72, Chairman Zhivkov's tenure as Bulgarian President is longer than that of any East European leader (except that of Enver Hoxha of Albania). He is generally recognized as the "dean" of Warsaw Pact leaders.

Located on the Balkan Peninsula, Bulgaria extends from the western shore of the Black Sea of Yugoslavia in the west. In the north, the Danube River is its common boundary with Romania; Greece and Turkey lie to the south and southeast. With only 8.8 million people, Bulgaria's population density is one of the lowest in Eastern Europe.

With the Bulgarian Communist Party controlling all phases of Bulgarian life, the Bulgarian political scene in recent years has been marked by stability, with little outward evidence of dissension. Bulgaria is most closely tied to the U.S.S.R. and both its domestic and foreign policy are patterned on the Soviet model. Although religious activity is discouraged by the party, religion still plays a role, especially among older people. Most church-goers belong to the Bulgarian Orthodox Church. Bulgarian is the primary language in the country, although Russian, which shares the Cyrillic alphabet and many words with Bulgarian, is widely understood.

Bulgaria's economic system is patterned closely on the Soviet system and a major factor in Bulgaria's recent growth rate has been Soviet assistance. In contrast to some more developed East European countries, which have suffered economically from their dependence on the U.S.S.R., Bulgaria's ties with the Soviets have brought economic benefits. This assistance has included raw materials at favorable prices, technical assistance, and large credits, partly in hard currency, and often on more favorable terms than those granted other East European countries. Bulgaria's economic planning is set forth in 5-year development plans closely coordinated with those of the U.S.S.R. In the 1981–85 5-year plan heavy industry will receive the largest share of the $42.5 billion budgeted for capital investment. Recently, however, attempts have been made to decentralize the economic planning and decisonmaking process under the new economic machanism [NEM], first intro-

duced in the agriculture sector in 1979 and extended to all other sectors in 1982.

Bulgaria's largest industrial sector is heavy industry or machine building and accounts for more than 25 percent of total industrial production. Despite its lower priority, agriculture is also a key component of the economy. Although only about 40 percent of the land is arable, Bulgaria has one of the highest ratios of arable land to population in Eastern Europe. More than one-third of the cultivated land is devoted to growing grain crops—wheat, corn, and barley. Bulgaria is also a major tobacco producer—and the world's fourth largest exporter of tobacco.

Bulgarian foreign trade is conducted primarily with other Communist countries. In 1982, for example, 76 percent of Bulgarian imports and 70 percent of its exports were with CMEA countries, and only 1.2 percent of its imports and 1.5 percent of its exports were with non-CMEA countries.[1] The Soviet Union accounts for more than half of Bulgaria's foreign trade turnover—54 percent in 1982. Austria, the United Kingdom, the Federal Republic of Germany, and Greece are major Western trade partners. Further, all major Japanese trading companies are presently operating in Bulgaria.

Bulgaria's main interest in trade with the West is to import technology to moderize its industrial base and to utilize more efficiently raw materials and energy. Bulgaria has improved its financial position vis-a-vis the West and in many cases is able to pay in hard currency for imports.[2] Nevertheless, barter and countertrade arrangements are major elements in contract negotiations.

The Bulgarian Government is eager to receive most-favored-nation status, as a means of increasing its export potential to the United States, but has been adamant about refusing to submit to criteria unilaterally established by the United States rather than negotiated bilaterally. Emigration has not been a major issue in United States-Bulgarian relations because of the small number of Bulgarians seeking to be reunited with families in the United States. However, there are at present some 35 outstanding family reunification cases and only 2 cases in the last 2 years have been resolved.

I. United States-Bulgarian Trade Relations

Since World War II, the Bulgarian Government has pursued a course of rapid industrialization, so that in 1984 more than three-fourths of the population work outside the agicultural sector. However, agriculture remains a key component of the economy and a major source of exports. A principal factor in the rapid post-war development has been Soviet assistance, and the Bulgarian economic model has been based on the Soviet pattern. Since 1979, however, the Bulgarians have implemented a new program, called the new economic mechanism [NEM], to decentralize planning and management of the economy, especially in agriculture. The provisions of the NEM include economic accountability of enterprises, withdrawal of subsidies, reduction in centralized comprehensive planning of

---

[1] U.S. Department of State Bureau of Public Affairs, Bulgaria Background Notes, April 1983.

[2] In 1982, Bulgaria had the lowest hard currency debt of any Eastern European country (see appendix D).

the economy and wages linked to production. Bulgaria's financial position is good relative to the other countries in Eastern Europe, and it has not suffered a major economic debt crisis.

Although efforts have been ongoing to improve relations between the United States and Bulgaria since 1972, United States-Bulgarian relations remain at a very modest level. A consular agreement went into effect in May 1975 and a cultural and scientific exchange agreement was signed in June 1977. That same year, both countries reciprocally eliminated restrictions on the travel of accredited diplomats within the country. A joint statement of cooperation in agriculture was signed in November 1979, and a Maritime Agreement was signed in February 1981 to facilitate marine traffic. A Fisheries Agreement, signed in 1978 to permit Bulgarian fishing within the U.S. 200-mile resources zone, was renegotiated in 1983.

UNITED STATES-BULGARIAN TRADE

[In millions of dollars]

	1981	1982	1983
U.S. exports	258.1	106.5	65.4
U.S. imports	25.6	25.1	32.8
Trade turnover	283.7	131.6	98.2

Source: U.S Department of Commerce.

The Bulgarian economy continued strong in 1982–83, but showed slower growth. National income increased by 4 percent in 1982, a full percentage point off 1981's growth and was expected to grow at about the same rate in 1983. Industrial production increased 4.6 percent in 1982, versus 5 percent in 1981, and was expected to return 5 to 6 percent in 1983, but ended closer to the 1982 level. Labor productivity gains were credited with most of the increased output. The leading sectors were metallurgy and engineering; energy output and light manufacturing food industries also enjoyed increases. Although metallurgy and chemicals expansion continued, they were far below the growth rate in 1981. On the positive side, electricity, coal, and cement production all rose impressively.

Bulgarian agriculture enjoyed a good year in 1982 and 1983 despite problems with weather. Overall output rose 4.7 percent. The grain harvest recorded a 15.3-percent increase, amounting to 10.2 million MT, an alltime record. The wheat crop enjoyed its third consecutive annual increase in output, reaching 4.9 million MT. Corn production was up 42 percent over 1981 at 3.4 million MT. The sugar beet and sunflower seed crops also did well at 1.5 and 0.5 million MT each. Other good crops were tobacco (125,000 MT) and potatoes (466,000 MT). Due to poor weather some export vegetable crops did not do well. These included tomatoes, bell peppers, and some fruits. Due to a poor forage crop in 1981, livestock herd sizes suffered in 1982.

Real income was reported to have increased 3 percent in 1982, as monthly industrial wages reached 197 leva. Population growth is a major concern due to its slow rate of increase. The living standards of the 8,929,000 Bulgarians improved in the following ways: the per capita share of public consumption funds rose 5.5 percent to 734

leva; retail turnover increased 4.8 percent to 13.3 billion leva; officially reported inflation continued to be nominal, especially with respect to staples such as meat, milk, and eggs.

Capital investment, a key indicator for economic growth, decreased 6 percent in 1982, amounting to 7.4 billion leva. The largest drop was recorded in agriculture and transportation. Industrial investment also declined, but still accounted for 43 percent of all investments. Altogether, 75 percent of investment funds went for production while, of that amount, 39 percent was for modernization, reconstruction, and expansion of existing industrial plants. The official explanation of the drop in investment was that the program was subordinated to the task of "further building and perfection of the material technical base of the economy." Problems continued to exist in housing construction as there were 3.3 percent fewer units built in 1982 than during the previous year.

Bulgarian foreign trade developed at a slower rate in 1982. Overall trade grew 9.1 percent, versus 15.3 percent in 1981. The difference was due to the slowdown of imports from Western countries. Overall, Bulgaria had a small trade deficit of 121 million leva. The traditional deficit with other Socialist countries (170 million leva) and developed Western countries (616 million leva) was almost offset by the large surplus with oil-rich developing nations (1.2 billion leva). Trade continues to be heavily concentrated with the Socialist countries (75 percent), and the Soviet Union in particular (54 percent). The developed countries' share of Bulgarian trade dropped last year from 17 to 14 percent, while the LDC's maintained their 11 percent share.

U.S. exports totaled $65.4 million and $106.5 million in 1983 and 1982, respectively, down from $258.1 million in 1981. Agricultural products accounted for 60 percent of the total. Major export items were: yellow corn ($32 million); soybean oil cake ($23.4 million); and concentrated superphosphates ($11.3 million); Bulgarian exports totaled $25 million, somewhat lower than 1981, 86 percent of which were agricultural products. Major products included tobacco ($17.7 million); cheese ($1.8 million) and portable typewriters ($1.5 million). Soybeans led U.S. exports in 1983 with zinc ore second and tobacco third.

The task of economic planners in 1983 was to control the slowdown of growth in economic activity. National income which slowed to 4 percent in 1982 was expected to expand by 3.8 percent in 1983, with increased labor productivity providing the impetus. Agricultural production during 1983 was not able to repeat 1982's excellent performance. Output was planned to increase by a modest 2.7 percent. Farm managers contended with a 6-month drought, followed by heavy rains, resulting in lower crop yields for grain crops. This had a negative impact on foreign exchange and increased imports, which in turn affected livestock production through 1983–84. Rhetoric about shifting emphasis toward consumer goods has subsided as the economy confronts internal and external stringencies.

Major industrial investment projects in 1983 were the heavy industry machine building projects at the Rodomir-Pernick complex; the steel plants at Rakovski and Ruse; renovation and expansion of projects at the Breznev iron and steel works (formerly Kremi-

kovtsi), the Lenin works in Pernik; the Elatsi and Assarel ore processing facilities, and the new rolling steel mill at Burgas, which entered into operation during 1983. Facilities were to be completed in the chemical sector for the production of sulphuric acid, ammonia, fertilizers, synthetic resins, adhesives, and plastics. On the high technology side, funds have been allocated for the computer magnetic disc plant in Plovdiv and the industrial robotics plant in Stara Zagora. Bulgaria is the leading CMEA producer of computer discs.

Bulgaria's energy situation is critical for future economic development. Producing only 25 percent of its needs, Bulgaria imports most of its oil and coal from the Soviet Union. The country's ambitious nuclear program already produces one-fourth of domestic electricity and will account for 40 percent of electrical consumption in 1990. The next most abundant energy reserves are the Dobrudzha deposits of black and coking coal. While coal reserves are estimated at 1.2-billion metric tons, 30 percent of which are coking, the cost and technical difficulties are a barrier to exploitation as the deposits lie at depths ranging from 1,375 and 1,950 meters.

Foreign trade has received considerable high level attention. President Todor Zhivkov noted in June 1983 that Bulgaria suffered worsening terms of trade during 1982 due to poor quality of products. Also, the hard currency difficulties experienced by Bulgaria's Third World partners limited expansion of this traditional source of large convertible currency surpluses. There are indications of an internal debate over the continuation of reform and the wisdom of importing Western technology versus increased CMEA integration and reliance on domestic or Soviet technology. With the West poised for recovery and Bulgaria's credit situation fairly good, the country may be prepared to move forward with expanded imports financed by increased exports to the West, expanded cooperation and countertrade, and possible use of available Western credits. The promotion of a number of younger technocrats is said to have registered President Zhivkov's vote on the side of reform and Western trade.[3]

In 1980, the Bulgarian Government established new rules for joint ventures, which permit significant foreign participation in operations in Bulgaria or with Bulgarian partners in third countries. On paper this is one of the most liberal joint venture laws in Eastern Europe, however, it has been received cautiously by most Western businesses because of the vagueness of many of its provisions. Under the joint venture law, the foreign partner has the right to repatriate profits after payment of taxes and to maintain ownership of imported machinery until the venture is dissolved.[4] Restrictions are that the venture may not own real estate in Bulgaria, the chairperson of both the managing board the board of directors must be Bulgarian, and operations decisions must be unanimous. Only ventures that manufacture primarily for hard currency exports will be approved. Companies interested in a joint venture as

[3] "Bulgarian Reshuffle Aims to Keep Economy on Course," David Buchan, Financial Times, Jan. 5, 1984.

[4] "Bulgaria Pushes for Trade Links with West," Christian Tyler, Financial Times, June 1, 1983.

a means to penetrate Bulgarian or CMEA markets must be prepared to take some returns in production or from revenue obtained from sales in other hard currency markets.

Specific additional opportunities include participating in petroleum exploration and mineral development. Domestic exploration for oil has been undertaken by domestic and Soviet enterprises, but the possibility exists for supplying American equipment. American participation in developing the Dobrudja coal deposits seemed likely until recently. The decision to commit resources to the project and select a Western partner has not been made yet, which is attributed to the level of investment required and the risk assessment of the project.

Bulgaria and the GATT

Bulgaria is not a contracting party to the GATT, although it has been granted observer status by the Contracting Parties. In recent years, Bulgaria has expressed interest in becoming a GATT member on several occasions, but has balked at the likely terms of its membership.

Bulgaria has adhered to the international arrangements on meat and dairy (both of which do not require membership in the GATT as a prerequisite). In addition, since 1980 Bulgaria has had an outstanding request before the Standards Committee to accede to the Standards Code. In 1981, the committee agreed to terms of accession. However, to date, Bulgaria has not agreed to these terms. The EC, supported by the United States, has taken the lead in negotiating these terms with Bulgaria.

II. Highlights of Meetings With Bulgarian Officials

President Todor Zhivkov

Recognizing that the delegation's primary mission was to discuss bilateral trade and economic development, more specifically the buying and selling of goods, President Zhivkov expressed appreciation for the efforts of businessmen who served in the U.S. Congress. Economic contacts would enhance understanding and reduce tensions. Zhivkov straightforwardly described his country as socialist, a small but progressive state, and a subordinate ally of the U.S.S.R. He also noted the stable economic growth during the last 20 years and the yearly increases in Bulgaria's standard of living.[5] Before the socialist revolution in 1944, Bulgaria ranked only above Albania in standard of living among countries in the region. Also, Bulgaria has managed its internal finances well and is not being strangled by international banks.

Zhivkov outlined the goals for Bulgaria's economy under the 1985–90 Development Plan, designed in cooperation with other CMEA countries, especially the U.S.S.R. Under the plan, certain industries are selected for special developmental efforts. The leading branches of the economy will be electronics and chemicals; machine building will also be a foundation and given priority. Since Zhivkov became President, chemical production has increased 40

[5] Bulgaria's standard of living is only slightly behind Hungary among central European states; the German Democratic Republic ranks first.

percent and the electronics industry has experienced recent growth of 8- to 13-percent annually (compared to 3 to 4 percent in other East European countries). Three major heavy machine building plants are under construction, 55 percent of machinery is exported. In short, according to Zhivkov, Bulgaria has been very successful in the mechanization of the country in every area—agriculture, industrial and households.

Other areas of success Zhivkov pointed to were light industry, consumer goods and food processing. In addition, Bulgaria is one of the most highly concentrated agricultural producers in the world and feeds 1½ times its own population. Zhivkov admitted that Bulgaria is not without problems. Chief among these are: (1) some production is still below the requisite standard of quality; (2) internal and external economic recession; (3) creeping inflation of prices set by the socialist sector for staples; and (4) too rapid growth in capital intensive industries requiring large amounts of investment; Bulgaria is also poor in natural resources; and Bulgaria must continue its industrial modernization with very judicious planning in order to remain competitive—the margin of error is slim.

Expressing a desire to improve the bilateral relationship on all fronts, Zhivkov felt that the biggest stumbling block from the U.S. point of view was that Bulgaria was socialist. Bilateral problems have always been resolved, but the United States often wants overnight success. He complained that other Western nations and even the Soviet Union does not require what the United States seems to expect. The principal basis for the bilateral relationship should be for each to take the other as they are, recognizing neither is dependent on the other. Zhivkov indicated that there were excellent contacts between the United States and Bulgarian business entities; however, the relationship seemed to deteriorate the higher one moved up in the U.S. administration. Zhivkov professed that Bulgaria was an open country with an outward-looking economy and wanted equitable and mutually advantageous trade development.

Chairman Gibbons recognized that without MFN there is no practical way to penetrate the high U.S. tariff barriers applied to Communist countries. The United States is probably the only Western country that does not grant MFN to Bulgaria; however, given the special requirements of the U.S. law associated with MFN, it might be embarrassing for Bulgaria if the United States granted MFN to it and not to the U.S.S.R. Zhivkov responded firmly that Bulgaria would not accede to any official demands in order to receive MFN and stated that small countries as well as large ones have pride and dignity. If Bulgaria and the United States could work out an equitable and mutually advantageous agreement that would provide MFN, there would be no reason for third countries (i.e., the U.S.S.R.) to be offended.

It was agreed that both countries should do as much as possible to improve the bilateral relationship and increase two-way trade outside of an MFN arrangement until such time as MFN treatment was politically possible. Chairman Gibbons reminded Zhivkov that consideration of MFN for Bulgaria would require public debate under the requirements of U.S. law. Questions certainly would be asked about official rhetoric against President Reagan, narcotics trafficking, family reunification, and the rigidness of con-

trols over Bulgarian society and restrictions on information, and supporters of MFN for Bulgaria would have to provide adequate responses. Many U.S. business persons already support MFN for Bulgaria, but the concerns of others in the United States would have to be addressed. Zhivkov responded that temporary restrictions and limitations could not keep trade frozen because the Eastern countries provide 40 percent of the world's production and good quality goods would always find buyers.

The discussion turned to the issue of world peace and concern that the current period of tension was precedent setting in that it was more confrontational than earlier cold war periods. According to Zhivkov, the two powers should recognize differences between them as a fact of life and find the ways and means to coexist peacefully. Bulgaria, as a small country, wants to preserve the balance of power and to promote discussions without demagoguery in order to overcome problems of military parity. Bulgaria fears that use of the tremendous stockpiles of weapons is becoming a dangerous possibility, but Zhivkov was not optimistic about further arms talks in the near future. In his view, the United States is preoccupied with deployment and is not interested in negotiation. In addition, the United States has offered no concrete new proposals but always wants to start with the zero option.

Mr. Conable pointed out that the United States would be in Stockholm for the beginning of the Conference on Confidence and Security Building Measures and Disarmament in Europe [CDE], and it was his hope that Warsaw Pact Foreign Ministers would also be present to continue the East/West dialog. He assured Zhivkov that many in the United States felt intensely about the disarmament issue; however, it was not the United States that had broken off the INF talks or suspended the START talks. The U.S. Government continues to believe that progress is possible through negotiations and that the Soviet walkout in Geneva was unjustified. Another way to reduce tensions was to try to take small steps in trade and other areas which was the purpose of the delegation's visit.

Zhivkov expressed the view that balance of interests, not balance of forces, was the crucial issue. Around the world there were hotbeds of tension and the United States and the U.S.S.R. needed each other to find solutions in these areas. Maintaining that the balance of interests would determine whether we have peace or war, Zhivkov further argued that business principles should not always be transferred to military aims; we do not need a race for one cartridge more in the same sense that business seeks every additional penny of profit. Peaceful coexistence is the key to preserving civilization. He suggested that a Balkan nuclear-free zone would be a positive step toward halting the arms race.

Zhivkov summarized by saying he was generally appreciative of the delegation's mission and that it was very important, in times of tension and stagnation, to take small steps toward a better relationship. He assured the members that his criticism of President Reagan was aimed at his policies and should not be taken as a personal assault. Mr. Bereuter urged that one way to take a small step would be to renew exchanges in agricultural production. For example, the United States has a great deal of expertise in animal nutri-

tion while Bulgaria does well in sunflower cultivation. Such exchanges bring confidence and create trade that would be mutually beneficial. Zhivkov agreed and noted that, in many ways, the Bulgarian economy was capitalistic; businesses are autonomous in trading activities and have many companies vying for the market. He emphasized that Bulgaria wished to convey its willingness to cooperate, but that his country did not have an inferiority complex.

Deputy Prime Minister and Politburo Member in Charge of Foreign Economic Relations Andrei Lukanov

Minister Lukanov reviewed Bulgaria's trade policy and interest in expanding relations with the United States in more specific terms. He stressed that the most important thing about Bulgaria's economy was its stability. Bulgaria had resisted the strains of the last few years, especially with respect to controlling its debt, and had doubled its economic potential over the last decade. Bulgaria was deeply involved in the international division of labor and was undergoing a "profound" adjustment period. In the past, the economy was based on internal reserves; now, the development of a high technology base and an improved export potential would be the key to future development.

In order to maintain high rates of growth and continued prosperity for the people, Lukanov viewed it as essential for Bulgaria to undergo the structural adjustment that would bring greater automation and other improvements in production processes, with higher technology, improved productivity, and better product quality. Thanks to central planning, Bulgaria has been able to invest substantially in those sectors of the economy necessary for such structural adjustment. Sectors with the greatest potential are heavy engineering, agriculture, pharmaceuticals and chemicals (especially those using less raw materials). Lukanov noted that, in moving away from bulk processing to tertiary processing, Bulgaria did not intend to neglect old industries.

The fact that Bulgaria could boast of having some of the largest companies in the world and an outward looking economy was not an accident, according to Lukanov, but part of their careful planning. The structural adjustment also would be planned and would call for fewer big projects in the future but would target smaller, more sophisticated technical projects. In perfecting its economic mechanism Bulgaria would: (1) strengthen the link between reward and economic performance; (2) give more priority and allow more room for initiatives by individual enterprises; and (3) provide as much autonomy as possible to the extent that it is not contrary to economic and social goals of the central plan.

The central plan now fixes broader objectives and leaves the trading, investment, price and production decisions to the individual enterprises. Exporting is becoming more and more important because enterprises have the greatest flexibility in setting export prices. Some domestic prices are set by the state in consultation with producers; most of these goods involve basics such as coal, electricity, metals, bread, milk, and oil. However, prices must always cover cost of production plus some measure of profit.

Mr. Conable suggested that business roundtable type meetings would improve communication so that more U.S. firms would

desire to do business in Bulgaria. Lukanov admitted that business contacts were sporadic and that the number of U.S. firms coming to Bulgaria has been declining although there are no limits on access. He pointed out that a firm that seeks to do business only once in 3 years cannot expect to be successful and compared U.S. efforts to those of the West Germans who were very active. The U.S. chemical industry was very active for a time, especially in specialty (agriculture) chemicals, and was successful in taking business away from West European firms. Lukanov emphasized that Bulgaria is ready to assist those American firms which are not experienced in the Bulgarian market.

Lukanov went on to discuss the kind of commercial exchanges now occurring between the United States and Bulgaria. Two trade fairs are held annually: One in May for consumer products and one in September for technology and machinery. In response to a suggestion by Mr. Bereuter that an agriculture equipment show would be useful, Lukanov agreed and noted that Bulgaria has good contacts with International Harvester. However, contacts were better with research centers associated with universities, for example, than with individual firms. Lukanov also complained that the bulk of imports and exports between the United States and Bulgaria were "colonial" products such as grain and tobacco, whereas Bulgaria's trade with Japan (amounting to $200 million) was highly diversified in composition.

The discussion turned to U.S. countervailing duty and dumping laws and whether Bulgaria was experiencing any particular problems. Lukanov believed that if the trade interests of both countries were taken into account, problems could be worked out early before cases were filed. Also, regulations on subsidies should be taken care of in the Subsidies Code of the GATT. Although not a GATT member, Bulgaria was very interested in joining the Subsidies Code; however, the EC had resisted while the U.S. supported Bulgaria's membership. Lukanov viewed the GATT, with all its imperfections to be a valuable instrument. Bulgaria has a pragmatic approach: To participate step by step, starting with the Subsidies Code, and see how things work out.

The question in Lukanov's mind was whether socialist countries can participate on equal terms in the GATT and in the codes; the experience has been mixed with Hungary being the most successful and Poland being the least. It is probably not possible, at the present time, for Bulgaria to join the GATT because they could not be assured of equal participation. Lukanov complained that the EC had driven Bulgaria out of the Iranian market for white cheese because of subsidies. He also noted that the U.S.S.R. had requested observer status in the GATT and urged the United States to look favorably on this request. It would provide a basis for the United States and the U.S.S.R. to find areas of cooperation which could result in a dramatic improvement in the international climate.

Stanko Todorov, Chairman of the National Assembly

In a brief, but cordial meeting with members of the Bulgarian Parliament, Stanko Todorov professed that improved economic ties with the United States had the full cooperation of the Bulgarian Assembly. A discussion of the differences in the two systems and

how the Bulgarian Assembly was elected and organized was followed by a visit to the chamber where the unicameral Assembly sits.

Under the Bulgarian Constitution, Todorov explained that the Assembly is the supreme authority which elects an executive body to carry out the business of the Government. This executive body is comprised of seven commissions each headed by a Minister elected for a 5-year term. All Ministers are members of the Assembly. The individual responsibilities of the Commissions are: Socioeconomic (including the budget); social policy; cultural values (science, culture, education, and arts); environmental protection; legislation; local bodies of government; and foreign policy.

The Assembly includes members of two parties, the Communist Party and the Agrarian Party, and a small minority of nonparty members. The current makeup of the Assembly is 271 Communist Party members, 91 Agrarian Party members and 30 nonparty members. However, the Fatherland Front, a patriotic organization organized during the resistance to the Fascists, selects all the candidates. The Front develops a list of candidates after consulting with the parties depending on their "influence in the society" and with various levels of advisers, including those in the constituencies. However, only one candidate is selected per constituency so, in effect, parties and candidates do not compete against each other. Members do not receive salaries for serving but receive paid leave from the offices where they work plus a stipend (about $250) to cover expenses. The Assembly, as required by the Constitution, must meet at least three times a year.

In explaining how bilateral relations could be improved, Todorov singled out trade as having the most potential noting that it is sometimes easier to establish contacts on the parliamentary level rather than the state level. Parliamentary exchanges as well as exchanges of young political leaders were discussed as the kind of activity that needed to be increased in order to improve understanding and communication between the two countries.

Following the meeting, Todorov hosted an official lunch for the delegation. During the toasts, Congressman Levin responded for the delegation noting the similarities as well as the differences between our two countries, including different alliances, different economic systems, and differences on nuclear arms policies. However, he said that the delegation takes seriously statements by President Zhivkov and other officials that Bulgaria wants more trade with the United States.

III. Prospects of Improved Commercial Relations

U.S. trade relations with Bulgaria are not normalized. No bilateral trade agreement has been concluded to provide for reciprocal extension of MFN tariff treatment on their business facilitation measures. The Bulgarians continue to refuse to discuss giving assurances on the freedom to emigrate as is required by U.S. law before a trade agreement can be concluded. During the past year, however, Bulgarian trade officials have proposed several initiatives aimed at diversifying trade and promoting cooperation with the United States. Several official exchanges have supported these ini-

tiatives, and indicate that bilateral commercial relations may be headed for gradual improvement. However, the United States is concerned that diversification efforts are aimed away from U.S. exporters (in favor of Japan and the FRG) for political reasons.

Expectations of a larger market for American exports to Bulgaria seemed to end in 1982 when sales dropped 57 percent. This trend continued through 1983 as well, reflecting economic and political factors. These factors include export controls; lack of most-favored-nation status; nonavailability of EXIM loans, OPIC guarantees, or CCC credits; reluctances of United States and European banks to finance trade with Eastern Europe; and the advantage that European competitors enjoy in proximity and familiarity with the market, in addition to Government export financing and business facilities. Nonetheless, opportunities exist for American exporters to sell technology which will allow Bulgaria to modernize its industry and agriculture, utilizing more efficiently raw materials and energy. Bulgaria's major opportunity to improve its hard currency trade is through agricultural expansions; the United States has a comparative advantage in many areas of Bulgarian emphasis. Bulgaria's trade surplus with non-CMEA countries has allowed it in many cases, to pay hard currency for these imports without financing.

Lack of normalized trade relations has limited bilateral trade turnover, which declined to $98 million in 1983 from an all-time high of $280 million in 1981. Traditionally, the United States has enjoyed a significant balance of trade surplus (exports $65 million, imports $33 million in 1983). Agricultural products comprise nearly two-thirds of total trade, and the decrease in trade turnover from 1981 through 1983 reflects a drop in Bulgarian purchases of soybeans and corn and certain other agriculture products from the United States. Modest increases in U.S. imports from Bulgaria have been largely due to increased United States purchases of Bulgarian leaf tobacco.

U.S. agricultural exports to Bulgaria in fiscal year 1983 amounted to $34 million, including $15 million in tobacco, $14 million in corn, and $4 million in soybean oilcake and meal. This figure, representing a decrease from the $103 million level in fiscal year 1982, was due to the combination of a very large Bulgarian corn corp in the 1982/83 season and a shift to Brazil as a source of oilcake imports. The present Bulgarian corn crop has been affected by drought and Bulgaria has bought some U.S. corn this year; however, the purchases of oilcake from Brazil has cut significantly into the United States No. 1 export to Bulgaria. U.S. agricultrual imports from Bulgaria in fiscal year 1983 amounted to $31 million, including $27 million in tobacco.

The Bulgarians have indicated that their purchase of Brazilian soybean meal is due to the lifting of a ban that had been imposed because of fear of the transmission of African swine fever from Brazil in soybean products. They also noted that Brazilian prices, credit terms and processing to meet Bulgarian needs render its meal more attractive than U.S. soybean exports. The Brazilians meal does seem to have a price advantage reflecting alleged subsidy practices that are the subject of a section 301 investigation in the United States and monitoring operations in the European Eco-

nomic Community. On the other hand, there are indications that noncommercial considerations may have figured in Bulgarian purchasing decisions.

Bulgaria has made serious efforts to improve its livestock industry, and it has been a net importer of animal feeds since the mid-1970's. However, it is unlikely that Bulgaria will, any time soon, produce enough feed because its fertilizer production is inadequate, its irrigation system unreliable, and its cropland might better be devoted to high-value tobacco, sugar, vegetables and fruits. Although continued improvement in agriculture production is encouraged by the U.S.S.R., Bulgaria would like to improve its technology base and become a leading industrial producer in Eastern Europe. This is one reason, along with seeking marketers of its products in the West, that Bulgaria has a heightened interest in improving trade with the United States and with Japan. However, because there is no MFN between the United States and Bulgaria and U.S. export controls on high technology products are quite restrictive, it is the agriculture sector (including farm machinery) that has the most potential for bilateral trade development.

A number of other issues will determine expansion of United States-Bulgarian commercial relations:

MFN

The provisions of the 1974 Trade Act preclude the United States from entering into a trade agreement with Bulgaria until the Bulgarians provide the freedom of emigration assurances required by section 402. The Bulgarians clearly have stated their refusal to provide such assurances, thereby rendering Bulgaria ineligible for MFN treatment and U.S. Government credits and guarantees. Bulgaria is very restrictive on travel even to other Communist States, and strict almost repressive control is exercised over every aspect of society. The most serious problems from the U.S. Government's point of view is family reunification. There are 35 outstanding family reunification cases and only 2 cases in the last 2 years have been resolved. However, it is expected that 13 cases of family separations will be resolved this year as Bulgaria steps up its efforts to improve the bilateral relationship.

High level visits and exchanges

There is one problem that was very vocally stated in Bulgaria, but also was raised by Government officials in several of the countries visited by the delegation. The problem is that there are few opportunities for high-level discussions of crucial bilateral issues and that one area of disagreement, such as over the missile deployment, can virtually end all dialog between the two sides on every issue. Although a policy of differentiation is followed with respect to the relationship between the United States and individual Eastern bloc countries, there seems to be little differentiation among issues even when a degree of success is achieved. Also, the Bulgarian's complained that high ranking Bulgarian officials were not regularly received by U.S. officials. A feeling of being slighted or not being treated with the proper respect led to further restrictions on the number and level of meetings at which the Bulgarians would participate. It appeared to the delegation members that the

situation had gotten out of hand, not just in Bulgaria but elsewhere in Central Europe, and that too much time and energy was being devoted to cosmetics and to the "pecking order" of exchanges. This tended to tie the hands of very able U.S. Ambassadors and to limit critical discussions that would help develop areas of agreement and to more accurately define differences and conflicts.

Trade facilitation

1. Trade promotion.—The Commerce Department annually sponsors an exhibition at the fall Plovdiv International Engineering Fair; in 1983, nine U.S. companies participated. The Plovdiv Fall Fair consistently attracts several dozen United States and other Western firms, who see their participation there as a means to maintain a visible presence in the Bulgarian market. Commerce also plans an exhibition at Plovdiv in the fall of 1984. No other events currently are scheduled for next year.

2. Bulgarian-United States Economic Council.—The Council was disbanded in December 1982 by the U.S. Chamber of Commerce following its assessment that the Council's lack of activity did not justify continued Chamber support. The Bulgarians reacted negatively to the action, viewing it as politically motivated. The U.S. Government has stressed that disbanding the Council was based on the Chamber's independent decision, and it has offered to assist the Bulgarians in developing an alternative to the Council.

In an effort to improve their relations with the U.S. private sector, the Bulgarians have proposed holding a roundtable discussion in which Bulgarian purchasing organizations could present specific trade and cooperation proposals to potential American business partners. The roundtable might be held in May 1984 in Bulgaria. The U.S. Department of Commerce is reportedly discussing a bilateral council with the Bulgarian Commercial Office in New York.

3. Official visits.—Several official exchanges on commercial issues have given positive impetus to bilateral trade relations. Bulgarian Minister of Transportation Tsanov visited the United States in October 1982 at the invitation of then Department of Transportation Secretary Drew Lewis. In September 1983, Bulgarian Minister of Chemical Industry Pankov met with officials from several major U.S. chemical companies. Both of these visits generated a flurry of business contacts, potential cooperation possibilities, and contracts, including conclusion of two joint ventures in the chemical field. In addition, Bulgarian Vice Minister of Foreign Trade Pirinski visited Washington in May 1983 and conveyed the Bulgarian Government's interest in improved trade relations. This interest was reciprocated during the visit to Bulgaria of Department of Commerce East Europe Director Jay Burgess in October 1983.

4. Foreign Commercial Service [FCS].—The FCS does not have representation in Bulgaria. Commercial affairs are handled by the State Department Economic/Commercial Office at Embassy Sofia. It is hoped that the level of trade will continue to improve so that an FCS officer for Bulgaria alone will be viable.

5. Company representation.—Dow Chemical is the only U.S. company that has opened an office in Bulgaria; it is run by a repre-

sentative of Dow-Switzerland and staffed by Bulgarian nationals. Several dozen U.S. companies are represented through Interpred, the Bulgarian agency for advertising.

Conclusions

The delegation is concerned that relations with Bulgaria have received a low priority in recent years. The delegation is also concerned that opportunities for U.S. businesses are diminishing in Bulgaria not only because of negative U.S. policies but also due to the considerable presence and involvement of the FRG, France, and the EC, as well as the growing presence of Japan.

Conservative growth, generous aid from the U.S.S.R., and a well-considered, agriculturally oriented reform and growth strategy have made Bulgaria one of the soundest economies in CMEA. Increased future growth and expanded Western trade may be expected and should be encouraged. United States-Bulgarian trade has been sharply declining in recent years. However, agricultural products and technology from the United States and an improving hard-currency position of Bulgaria support future growth in bilateral trade. If there were any improvements in the U.S. competitive position vis-a-vis other Western exports, then bilateral trade would possibly expand significantly.

The delegation strongly believes it is bad trade policy to rigidly continue nonnegotiable discriminatory tariff treatment and to withhold official credits, including agriculture credits and guarantees. Such a policy only serves to deprive the United States of a key market and further erodes U.S. competitiveness worldwide.

TURKEY

Overview

Between December 12 and 15, 1983, the delegation visited Istanbul, Turkey, to explore the possibilities for enhanced trade between the United States and Turkey. The delegation met with leaders of the Istanbul business community, with U.S. Ambassador Robert Strausz-Hupé, and with the commercial and economic personnel of the U.S. Embassy and Consulate. Istanbul, with a population of 4 million, is Turkey's principal city and has become a major regional trade link between the West and the Middle East. As the country's commercial, industrial, and intellectual center, Istanbul is the headquarters location for most large Turkish and foreign private firms and banking institutions.

Turkey is a key member of the North Atlantic Treaty Organization [NATO] and its military force of 600,000 is second only to the United States in size. Embassy officials noted the long and proud tradition of the Turkish military and its important role as a major sector in the Turkish economy. Embassy officials also pointed out the strategic geopolitical position occupied by Turkey as a neighbor of the Soviet Union. It is also bounded on the east by Iran; on the south by Iraq, Syria, and the Mediterranean Sea; and on the west by Bulgaria and Greece.

The delegation noted with interest the civilian government formed by Turkey's new Prime Minister Turgut Ozal following the November 6, 1983, election.[1] An economist and leader of the conservative Motherland Party, Mr. Ozal has strongly emphasized economic initiatives, including attempts to move Turkey from a protectionist model to a free-market economy. As the architect of the 1980 economic stabilization program, he is expected to continue to place an emphasis on the encouragement of foreign investment. The delegation also notes his recent statements indicating the Turkish Government would like to see an improvement in relations with the U.S. Congress, which, according to the U.S. Ambassador, has not paid enough attention to Turkey. Clearly, a great deal of enthusiasm is present in Turkey over the prospects for this new government which is the first civilian government in more than 3 years.[2]

I. United States-Turkish Trade Relations

During 1983, a weak Turkish import market coupled with a strong U.S. dollar resulted in a 10-percent falloff in U.S. export

[1] The delegation declined an invitation to visit Ankara, Turkey's capital, since a new government was in the process of being formed.

[2] The delegation was aware of the deep concern among various groups regarding the human rights situation under the martial law government, including the strongly critical report of the U.S. Helsinki Watch Committee issued in November 1983.

sales. In 1984, U.S. exports to Turkey are expected to rebound vigorously, according to the U.S. Department of Commerce. In 1983, U.S. exports to Turkey were $783.4 million while U.S. imports in 1983 from Turkey amounted to $320.4 million.

In 1980, faced with a negative growth rate, a huge foreign debt which had brought Turkey to the brink of default, and widespread shortages of vital imports, the Turkish Government adopted a comprehensive new economic stabilization program. The program of the preceding decade, which emphasized the role of state-owned enterprises and fostered a deep suspicion of private capital, was replaced with a program relying on market forces. The new policy included a wider role for private capital, including foreign capital and investment.

With Turkey well into the fourth year of the implementation of this program, key economic indicators point to widespread progress in many areas. However, the economy in 1983 began to show signs of a loss of momentum from the dramatic gains of the previous 2 years.

Turkey's GNP, which rose by 4.6 percent in 1982, was expected to grow at a slower pace (about 3 percent) in 1983. While industrial sectors, and export-oriented industries continue to rise, there is a marked slowdown from 1982. According to the Department of Commerce, the earlier export target of $6.6 billion for 1983 was probably not realized, partly due to a downturn in exports to Iraq and Libya. The fight against inflation, which scored a dramatic success in 1981 and 1982, lagged somewhat in 1983. The goal to bring inflation down to 25 percent in 1983 was not reached. However, the 1983 rate of about 30 to 35 percent compares favorably with a rate of nearly 110 percent in 1980.

United States-Turkish trade [1]

	Millions
U.S. exports:	
January-July 1983	$483.0
1982 [2]	866.0
1981	789.0
U.S. imports:	
January-July 1983	264.0
1982 [2]	274.0
1981	261.0
Principal U.S. exports to Turkey:	
Machinery and transport equipment	368.0
Chemicals	137.0
Coal	88.0
Iron and steel scrap	48.0
Wheat	40.0
Textile yarn and thread	23.0
Principal U.S. imports from Turkey:	
Tobacco	206.0
Fruits and nuts	15.0
Jet fuels	6.8
Carpets and rugs	4.7
Sheets, pillow cases, etc	2.7

[1] Major trading partners: West Germany, Iraq, Turkey, France, United States.
[2] U.S. market share 9.3 percent (1982).

Source: U.S. Department of Commerce.

The 1980 economic stabilization program marked a major change in the Turkish Government's official attitude toward foreign investment. A record for timeliness of commercial payments over the

past 3 years, an impressive record of economic growth, and favorable climate for foreign investors have made the Turkish market an attractive one for American companies. In October, an official U.S. Government investment mission visited Turkey, and the 22 American participants were greatly impressed with Turkey's investment opportunities. The Turkish Government has recently taken other steps to improve the environment for foreign investment. It has acted to remove bureaucratic bottlenecks by establishing a foreign capital department to streamline the foreign investment approval mechanism.

II. Highlights of Discussions

During a panel discussion with business leaders, it was pointed out that there has been a major emphasis on exports and foreign investment during the last 3 years. In fact, the United States is now the third largest foreign investor with a direct investment estimated at $206 million. In 1980, U.S. exports to Turkey were less than $450 million. By 1983, U.S. exports were close to $1 billion. Turkish exports to the United States, consisting primarily of such products as hazelnuts, tobacco, and textiles, amounted to about $265 million during the first half of 1983. The Federal Republic of Germany is presently Turkey's largest trading partner. However, the delegation learned that the Turkish business community is beginning to target the U.S. market for export growth. The Turkish leaders indicated that, until recently, controls were imposed on virtually all imports by the Turkish Government. Import regulations by the Government, however, have been liberalized. In contrast to the old system, which allowed only specified goods to be imported, the new import regime divides controlled imports into three lists. According to the Commerce Department, these include: (1) goods banned completely; (2) goods whose import is subject to Government permission; and (3) luxury goods which can be imported on payment of a surtax. All other goods can be freely imported on payment of customs duties. Customs duties have also been lowered in many instances.

The delegation had the privilege of touring OTIM, the Middle East Trade and Export Center. Established in 1981 for the purpose of promoting Turkey's export potential as well as contributing to the development of foreign trade relations, OTIM functions as a foreign business and export center. It has permanent exhibition facilities where Turkey's 380 public and private sector industrial establishments are represented with displays of a wide range of products. Various service organizations are also present at the center. With the potential created by the new Textile and Fashion Center opening in March 1984, OTIM will shortly house about 750 companies with a much more diversified product exhibition. OTIM has also been the site for various local and international activities including conferences, seminars, fashion shows, and visits by foreign delegations.

The delegation noted that OTIM offers broad commercial services to foreign businessmen who visit Turkey. When requested, it can create contacts and maintain business relations for foreign concerns with their Turkish counterparts. A modern organization fa-

cilitates inquiries from abroad and furnishes information on market trends, companies, products, and other aspects pertinent to doing business in Turkey. In all these activities, however, OTIM does not act as a commission agent.

The delegation also attended a luncheon sponsored by the Istanbul Chapter of the Propellor Club of the United States. This club, which is the only English-speaking business association in Turkey, provides a forum for American businessmen to meet Turkish executives. The Istanbul Chapter has become the third largest club overseas by increasing its membership from 67 in 1980 to over 300 at the end of 1983. By tradition, the secretary of the club has been the Commercial Officer at the U.S. Consulate. During his remarks to the Propellor Club, Chairman Gibbons stressed the importance of opening markets and the need to reduce trade and investment barriers. In particular, he noted the progress Turkey was making in attracting U.S. investment and the growth of Turkish exports, which enhances bilateral trade.

III. Prospects for Improved Commercial Relations

The Turkish import market will be a growth area for U.S. exports in 1984, particularly in view of relaxation of import procedures. Moreover, the investment climate is likely to be positive, especially in such high technology areas as electronics and private medical facilities. Turkey has also successfully reentered the international financial market for the first time since its economic crisis of 1978–79. U.S. exports are expected to increase substantially in 1984.

Given the gap between Turkey's extensive needs and its limited resources, external financing of public and private capital investment will be a crucial factor in 1984. In addition to short- and medium-term credits available from commercial banks, U.S. Export-Import Bank programs for Turkey offer FCIA insurance and supplier credit for short- and medium-term sales up to $10 million.

Foreign Commercial Service/Istanbul

The Foreign Commercial Service [FCS] maintains one American officer and three commercial specialists at the U.S. Consulate in Istanbul to service the large number of business visitors and commercial activities.

Conclusions

Turkey is a strategic NATO ally of the United States. With an expanding population and rapidly developing economy, the delegation strongly believes that Turkey warrants closer attention by the Congress.

The delegation is pleased that the newly-elected Government is expected to continue basic policies of the 1980 economic stabilization program. The further liberalization of Turkey's past restrictive import system and the improved investment climate are positive signs for the Turkish market.

APPENDIX

APPENDIX A: SUBCOMMITTEE PRESS RELEASE, NOVEMBER 23, 1983, ANNOUNCING TRADE MISSION

[Press release, Nov. 23, 1983]

HON. SAM M. GIBBONS (D-FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A TRADE MISSION TO CENTRAL AND EASTERN EUROPE

The Honorable Sam M. Gibbons (D-Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that he will lead a trade oversight mission to the central and Eastern European countries of East Germany, Czechoslavakia, Austria, Hungary, Romania, and Bulgaria during the House recess period, November 26 through December 15, 1983.

In announcing the mission, Chairman Gibbons noted that:

"The Subcommittee on Trade exercises important oversight responsibilities under provisions of the trade laws with respect to the application of nondiscriminatory most favored nation (MFN) trading status to non-market economy countries. In addition to those countries, there are a number of countries in Eastern Europe which may become candidates for extension of MFN status in the future. Such countries have the potential of becoming important trading partners with the United States and warrant the attention of the Subcommittee.

"The Subcommittee is also considering changes in U.S. antidumping and countervailing duty laws which may have important implications for our trade with the non-market economy countries. The Subcommittee is interested in examining how these unfair trade laws, which deal with pricing practices and government subsidies, can be applied to such countries in a more predictable and less arbitrary manner.

"I firmly believe it is important and timely to strengthen our relations with the countries of Eastern Europe. An expression of interest at this time by the Congress in expanding trade will play an important role in achieving better overall relations. Although the primary purpose of our mission is to seek the improvement of economic relations and the expansion of trade, I hope we can also find ways to build a foundation for peace, not just in our time, but for future generations as well."

During its mission, the Subcommittee intends to discuss these and other issues with principal economic and political officials in each country, as well as with U.S. and foreign businessmen. Information gained from scheduled meetings will be shared fully with other interested Congressional parties and the executive branch trade agencies. On the basis of its findings, the Subcommittee may develop legislation designed of facilitate future trade ties between the United States and these countries.

Mrs. Gibbons will accompany the Chairman on the trade mission at no additional cost to the U.S. Government.

APPENDIX B: LIST OF MEETINGS, PLANT TOURS, AND OTHER VISITS

West Berlin

The Honorable Nelson C. Ledsky, Chief of U.S. Mission; Major General James G. Boatner, U.S. Commander, Berlin; Governing Mayor Richard von Weizsaecker; Senator Gerhard Kunz, Berlin Senat Finance Minister; Mr. Robert Layton, Commissioner for Economic Development; and various German and U.S. business leaders.

German Democratic Republic (East Germany)

East Berlin.—The Honorable Rozanne L. Ridgway, U.S. Ambassador to GDR, and Embassy officials; the Honorable Oskar Fischer, Minister for Foreign Affairs; Dr. Gerhard Beil, State Secretary and First Deputy Minister for Foreign Trade; and Politburo Members Horst Sindermann, President of the Volkskammer, and Gunter Mittag.

Dresden.—The Honorable Karl-Heinz Seltmann, Deputy Mayor; and City cultural officials.

Czechoslovakia

The Honorable Robert W. Farrand, Deputy Chief of Mission, and other U.S. Embassy officials; the Honorable Rudolf Rohlicek, Deputy Prime Minister; the Honorable Jaromir Johanes, Deputy Minister of Foreign Affairs; the Honorable Jaroslav Jakubec, Deputy Minister of Foreign Trade; Czechoslovak Chamber of Commerce and Members of Czechoslovak Section of U.S.-Czechoslovak Economic Council; and Czech Foreign Trade Organization officials.

Austria

The Honorable Helene A. von Damm, U.S. Ambassador to Austria, and Embassy officials; Members of East-West Trade Subcommittee of the American Chamber of Commerce in Austria; and Western businessmen.

Hungary

Budapest.—The Honorable Nicolas M. Salgo, U.S. Ambassador to Hungary, and Embassy officials; the Honorable Jozsef Marjai, Deputy Premier; the Honorable Janos Fekete, First Deputy Chairman, National Bank of Hungary; and the Honorable Peter Veress, Minister of Foreign Trade, and other Hungarian trade officials.

Gyor.—Ede Horvath, Managing Director, RABA Works, and plant tour.

Estergom.—His Eminence Cardinal Lekai, Primate of Hungary.

Debrecen.—City and County Council Members and University English Department faculty members, industrial leaders, and regional members of the Hungarian Socialist Workers Party.

Romania

Artand/Bors.—Mayor and local officials.

Cluj-Napoca.—Mr. Ion Ciorba, First Deputy Chairman of the People's Council of Cluj County and local party officials.

Poiana-Brasov.—Mr. Ion Draghici, Mayor of Brasov City, and local officials.

Bucharest.—The Honorable David B. Funderburk, U.S. Ambassador to Romania, and Embassy officials; the Honorable Nicolae Ceausescu, President of the Republic and Chairman of the Council of State; the Honorable Nicolae Giosan, President of Grand National Assembly; the Honorable Vasile Pungan, Foreign Trade Minister; the Honorable Stefan Andrei, Foreign Affairs Minister; Members of Grand National Assembly (Parliament); and press conference with Romanian press.

Bulgaria

The Honorable Robert L. Barry, U.S. Ambassador to Bulgaria, and Embassy officials; the Honorable Todor Zhivkov, President of State Council; the Honorable Andrei Lukanov, Deputy Prime Minister for International Economic Relations; the Honorable Stanko Todorov, National Assembly Chairman; and various Bulgarian Communist Party members, Ministry and Parliamentary officials.

Turkey

The Honorable Robert Strausz-Hupé, U.S. Ambassador to Turkey; Daniel O. Newberry, Consul General; and Embassy officials; meeting with Propellor Club (only English-speaking business association in Turkey); tour of Middle East Trade and Export Center; Istanbul business leaders; press conference; and Turkish Government and business leaders.

APPENDIX C: ECONOMIC PROFILE OF U.S.S.R., EASTERN EUROPE, UNITED STATES, EEC, AND JAPAN, 1982

[Population in millions]

Country	Population	Per Capita			
		GNP		Exports	Imports
		1982	1981		
U.S.S.R.	270.0	$6,350	$5,920	$323	$288
Eastern Europe	110.4	6,520	6,100	816	790
Bulgaria	8.9	4,210	3,820	1,292	1,337
Czechoslovakia	15.4	9,550	8,960	1,058	1,052
East Germany [1]	16.7	10,510	9,730	1,323	1,251
Hungary	10.7	6,460	5,950	1,224	1,262
Poland	36.2	5,160	4,960	431	414
Romania	22.5	4,660	4,220	516	431
United States	232.1	13,180	12,850	915	1,098
EEC	271.2	8,610	8,910	2,175	2,271
West Germany	61.6	10,650	11,130	.....	.....
Japan	118.4	8,860	8,950	1,169	1,111

[1] Many analysts consider the GDR estimate to be high, both in relative and absolute terms. The 1981 figures are considered to have less distortions.

Source: Handbook of Economic Statistics, 1983.

APPENDIX D: TABLE OF HARD CURRENCY DEBT OF THE U.S.S.R. AND EASTERN EUROPE

HARD-CURRENCY DEBT OF THE U.S.S.R. AND EASTERN EUROPE

[Year-end 1982, in millions of dollars]

Country	Gross debt	Net debt [1]	Owed to U.S. Government	Owed to U.S. banks [2]	Estimated debt service ratio (percent) [3]
U.S.S.R.	20,100	10,100	403	223	16
Poland	24,800	23,800	1,700	1,126	[4] +100
East Germany	13,400	11,435	0	866	56
Romania	9,770	9,460	261	212	45
Hungary	7,800	7,050	25	911	35
Czechoslovakia	3,970	3,200	0	155	19
Bulgaria	2,850	1,850	0	191	31
Eastern Europe	62,590	56,795	1,986	3,461	.....

[1] Gross debt less assets with Western Banks.
[2] Charter basis (includes U.S. banks abroad), less guarantees.
[3] Debt service (principal and interest due in given year) divided by hard-currency commodity export earnings, plus receipts from sales of arms and gold, and from interest, net invisibles, and transfers.
[4] Calculation depends on final rescheduling.

Source: Handbook of Economic Statistics, 1983; Country Exposure Lending Survey.

APPENDIX E: TABLE OF STATUS OF UNITED STATES-EAST EUROPEAN COMMERCIAL RELATIONS

STATUS OF UNITED STATES-EAST EUROPEAN COMMERCIAL RELATIONS

[As of Nov. 15, 1983]

	Bulgaria	Czechoslovakia	East Germany	Hungary	Poland	Romania
MFN tariff treatment	No	No	No	Yes [1]	Yes [2]	Yes [1]
Eximbank facilities	No	No	No	Yes [1]	Yes [2]	Yes [1]
Maritime agreement [3]	Yes	No	No	No	No	Yes
Double taxation treaty [4]	No	No	No	Yes	Yes	Yes
Consular convention [5]	Yes	([6])	Yes	Yes	Yes	Yes
Civil aviation agreement [7]	No	Yes	No	Yes	Yes	Yes
Fisheries agreement [8]	Yes	No	Yes	No	Yes	Yes
Science, technology agreement [9]	Yes	No	No	Yes	Yes	Yes
Long-term economic cooperation agreement [10]	No	No	No	No	No	Yes
Official financial claims settled	Yes	Yes	No	Yes	Yes	Yes
Foreign business representation offices permitted	Yes	Yes	Yes	Yes	Yes	Yes
Foreign equity investment permitted	Yes	No	No	Yes	Yes	Yes

[1] Subject to terms of Trade Act of 1974.
[2] Suspended.
[3] Provides for decreased notification time for visits of each nation's vessels to the other's ports.
[4] Designed to avoid double taxation of business income, personal service income, and investment income.
[5] Provides for access by embassy personnel to nationals who might be detained in cosigning country.
[6] Negotiated; ratification pending.
[7] Permits and establishes civil aviation between countries.
[8] Allows for catch allocations within territorial waters.
[9] Facilitates scientific information exchange and cooperation.
[10] Facilitates long-term business and economic cooperation.

APPENDIX F: TABLE OF MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS

U.S.S.R. AND EASTERN EUROPE: MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS

[As of Nov. 15, 1983]

	GATT	IMF	IBRD	International Chamber of Commerce [1]
U.S.S.R.	No	No	No	Yes
Bulgaria	Observer	No	No	Yes
Czechoslovakia	Yes	No	No	Yes
East Germany	No	No	No	Yes
Hungary	Yes	Yes	Yes	Yes
Poland	Yes	(2)	(2)	Yes
Romania	Yes	Yes	Yes	Yes

[1] Through liaison committee.
[2] Application pending.

APPENDIX G: TRANSCRIPT OF PRESS CONFERENCE STATEMENT BY CHAIRMAN SAM M. GIBBONS, HOTEL INTERCONTINENTAL, WEST BERLIN, NOVEMBER 29, 1983

We were delighted to have been in Berlin these past few days, most of us for the first time. We appreciate your joining us here today as we finish a most enjoyable and productive visit to this great city. Before I introduce the other members of the delegation, I would like to especially thank Governing Mayor von Weizsaecker and Senator Kunz for their gracious hospitality. I would also like to thank the leaders of the Berlin business community for the informative discussions about trade and investment.

All except Mr. Bereuter are Members of the Ways and Means Trade Subcommittee. Under the U.S. Constitution, the Congress is given the power to regulate international trade. Although from time to time we delegate much of the negotiating authority to the President, the Congress and our Committee play an active role in U.S. trade relations and policy.

Our visit to Berlin was focused on our desire to foster stronger trade and investment ties between the City of Berlin and the United States. I hope our dialog has contributed to those ties and we want to offer our support in the future to that effort. The Members of the delegation, from both political parties, strongly support the free flow of trade and investment. We believe that gains from trade are best achieved through the liberalization of trade practices, not by a closing of markets to trade.

In 1982, Berlin imported from the United States goods valued at over 341 million Deutsche Marks. Also in 1982, Berlin exported goods totalling approximately 298 million Deutsche Marks to the United States. And, on the investment side, we have learned of the aggressive and creative program of the Berlin Senat and the Berlin Economic Development Corporation to attract new industry and technology to this city.

We have developed a clear understanding of the importance of strengthening the economy of Berlin through an expansion of the industrial base, bringing in new technology, and by creating more jobs. The United States shares in the responsibility for the economy and security of this city. I know I can speak for the other Members when I say that the U.S. commitment to the freedom of this city is as strong as ever.

However, the primary purpose of our mission is to visit the countries of Eastern Europe or the so-called nonmarket economy countries.

The Trade Subcommittee handles legislation and oversight responsibilities regarding the application of nondiscriminatory most favored nation (MFN) trading status to nonmarket economy countries such as Romania and Hungary. In addition to those countries, there are other countries in Eastern Europe which may become candidates for the extension of MFN status in the future. Such countries have the potential of becoming important trading partners with the United States and warrant the attention of the Subcommittee. In this connection, we were pleased to have the opportunity to meet with top GDR officials yesterday. Ambassador Ridgway hosted a reception at which nearly 100 top Party and ministerial officials attended and I will be pleased to share with you their names.

The Subcommittee is also considering changes in U.S. antidumping and countervailing duty laws which may have important implications for our trade with the nonmarket economy countries. We are interested in examining how those unfair trade laws, which deal with pricing practices and government subsidies, can be applied to such countries in a more predictable and less arbitrary manner.

I believe it is important and timely to strengthen our relations with the countries of Eastern Europe. An expression of interest at this time by the Congress in expanding trade will play an important role in achieving better overall relations. While seeking the expansion of trade, I hope we can also find ways to build a foundation for peace, not just in our time, but for future generations as well.

APPENDIX H: SELECTED ARTICLES FROM THE EAST EUROPEAN PRESS

(TRANSLATIONS COURTESY OF THE U.S. DEPARTMENT OF STATE)

1. Rude Pravo, Prague, Czechoslovakia, December 2, 1983, page 2

ON CZECHOSLOVAK-AMERICAN RELATIONS—DEPUTY PRIME MINISTER OF CSSR R. ROHLICEK RECEIVES REPRESENTATIVES FROM THE U.S.A.

Deputy Prime Minister Rudolf Rohlicek received on Friday at Hrzansky Palace in Prague a group of Congressmen from the U.S. Congress who are on a visit to Czechoslovakia. The group is led by the Chairman of the Subcommittee on Trade Sam M. Gibbons.

Special attention was given to the current state of relations among the two countries, especially relations in the economic area and the conditions for their development. In this connection, the Deputy Prime Minister asserted our interest in the broadening of balanced and mutually advantageous cooperation, as long as on the American side the existing difficulties are removed, such as tariff discrimination and other measures which impede development of CSSR-American economic relations to the level which Czechoslovakia has with other developed capitalist countries.

During the exchange of views on the current international situation, the Deputy Prime Minister of the federal government expressed the standpoint of the CSSR on the current international situation and especially on the danger for world peace and peaceful cooperation represented by the deployment of new American rockets in Western Europe. He emphasized that this reality creates a new, very serious situation and has negative consequences for the entire international developments, especially for the development of East-West relations and also for bilateral relations.

On the same day, the American Congressmen were received by the Deputy Minister of Foreign Affairs Jaromir Johannes and the Deputy Minister of Foreign Trade Jaroslav Jakubec.

Robert W. Farrand, Charge d'affaires a.i., of the United States, also participated in the meetings.

2. Scinteia, Bucharest, Romania, December 10, 1983, page 1

PRESIDENT NICOLAE CEAUSESCU RECEIVED DELEGATION FROM THE U.S. HOUSE OF REPRESENTATIVES

The President of the Socialist Republic of Romania, Mr. Nicolae Ceausescu, received on Friday afternoon a delegation of the U.S. House of Representatives, led by Sam Gibbons, (D-Fla.) Chairman of the Trade Sub-committee of the House Ways and Means Committee, which is visiting our country at the invitation of the Grand National Assembly.

Participating in the delegation are Barber Conable (R-N.Y.), member of the Ways and Means Committee, Bill Frenzel (R-Minn.), member of the Ways and Means Committee, Douglas Bereuter (R-Neb.), member of the Banking and Finance Committee, Sander Levin (D-Mich.), member of the Banking and Finance Committee, and Franklin Phifer, Jr. and Thelma Askey, staff members of the Trade Sub-committee.

Nicolae Giosan, Chairman of the Grand National Assembly, Ilie Vaduva and Marin Ivascu, deputies, also took part.

David B. Funderburk, Ambassador of the U.S. in Bucharest, participated.

On his own behalf and on behalf of the delegation, Representative Sam Gibbons thanked President Nicolae Ceausescu for the opportunity to visit Romania and for the meeting granted, expressing at the same time satisfaction for the opportunity to meet with the Romanian Chief of State and to examine together new modalities destined to lead to the broadening of relations between our countries.

President Nicolae Ceausescu greeted his guests cordially, indicating his satisfaction with the meeting with members of the delegation, as well as his conviction that their visit will contribute to the continued promotion of Romania-American cooperation.

During the meeting the positive evolution of relations between Romania and the United States, based on the principles of full equality of rights, respect for national sovereignty, non-interference in internal affairs and mutual advantage were raised. It was determined by both sides that conditions exist for the intensification of relations between Romania and the United States in the political, economic, technico-scientific, cultural and in other areas of activity, to the benefit of both countries and peoples, and of the cause of peace, security and understanding among nations. The necessity to take action with perseverance for a large, unhindered, development of commercial exchanges, of Romanian-American economic cooperation, so that the real possibilities which the economies of our countries offer may be realized, was emphasized. In this context, the special role which parliaments and parliamentarians from both countries play in broadening and deepening bilateral cooperation, in strengthening friendships and better understanding between the Romanian and American peoples, was stressed.

During the talks an exchange of opinions took place on the international situation and on ways of strengthening peace and collaboration. It was indicated that the most burning problem of our time is the struggle for peace, for stopping the curse of rearmament, underlining the importance of increasing efforts by all states, by all progressive forces, to halt the worsening of the international situation, for disarmament, and in the first case for nuclear disarmament.

In connection with the worsening of the situation in Europe, the Romanian Chief of State reaffirmed the position of our country concerning the need to resume negotiations at Geneva between the Soviet Union and the United States and the achievement of an agreement which would assure a balance of forces between the two sides, at the lowest possible level of armaments, which would exclude the deployment of new medium-range missiles targeted at the continent and would lead to the withdrawal and destruction of the existing ones, to open the way to the complete elimination of all nuclear arms in Europe.

There was general agreement that parliaments and parliamentarians can and should make an active contribution to finding just and durable solutions to major contemporary problems, to the building of a world which assures the peace, independence and free development of every nation.

The meeting took place in a cordial atmosphere.

3. Turkish Daily News, Istanbul, Turkey, December 15, 1983, page 3

U.S. Congressional Team Meets Businessmen

Istanbul.—A group of five U.S. Congressmen met with leading Turkish businessmen to discuss ways of promoting trade between Turkey and the United States.

The group arrived in Istanbul late Monday night from Sofia, Bulgaria, following a tour of East European capitals.

The delegation is headed by Sam M. Gibbons, a Florida Democrat and chairman of the House Ways and Means Committee.

The group also includes Douglas M. Bereuter, D-Neb., Sander M. Levin, R-Mich., Barber B. Conable, R-N.Y., and William E. Frenzel, a Republican from Minnesota.

Before entering into a private one-hour meeting with leading Turkish businessmen, Gibbons told reporters the delegation included Turkey on its itinerary "because of Turkey's vast trade opportunities for U.S. investors and its position as a true ally" in the region.

Gibbons stressed that they skipped going to the capital of Ankara to avoid any appearance of involvement with the newly installed government of Premier Ozal.

Gibbons declined to comment on the future of U.S.-Turkish economic ties under Ozal, but stressed that he was pleased with the election of a pro-Western politician with "a full knowledge of Turkey's economic needs."

The group will continue informal talks today and fly home later today. The group will record its impressions in a report to be submitted to the committee's trade subcommittee.

The delegation visited Czechoslovakia and East Germany, then paused in Vienna, Austria and subsequently toured Hungary, Romania and Bulgaria.

APPENDIX I: VICE PRESIDENT BUSH SPEECH, TEXT

ADDRESS BY GEORGE BUSH, VICE PRESIDENT OF THE UNITED STATES, VIENNA, AUSTRIA, SEPTEMBER 21, 1983

It is a pleasure for me to come here and speak to you today; and it is appropriate that the setting be the Ceremony Hall of the Hofburg, a hall which has witnessed both the full horror of dictatorship and the glistening promise, the abundant actuality of freedom. This beautiful country of Austria is now in the full bloom of democracy; but others are not so fortunate. I have just come from the countries to your East, and I have seen in the faces of the people there a yearning for the same freedoms and democratic rights enjoyed by the people of Austria. I know that this is a subject of particular concern to Chancellor Cinowatz, whose home in the Burgenland sits only a few miles from Austria's eastern border.

Last January I travelled to Germany, and in the course of my trip paid what for me will always be an unforgettable visit to the small village of Moedelreuth. Down the main street ran a high concrete wall topped with densely packed barbed wire. On the near side, the villagers were peacefully going about the ordinary business of their daily lives. On the far side, soldiers stood watch with machine guns and attack dogs ran along the wall on chains.

As I looked out to the East, I had the momentary impression that I was standing in a lonely outpost on the edge of Western civilization. Given the harsh reality of the wall, the impression is perhaps understandable; but how true is it?

Historically, of course, it couldn't have been more false. That wall, that wound which in one form or another spans the breadth of the continent, runs not along the edge, but cuts through the very heart of Europe. The diverse and complex region through which I have just travelled, a region so rich in history and culture, has always been a part of the European mainstream.

You Austrians so aptly call this part of the world Mitteleuropa—Central Europe. Can a wall, can guard dogs and machine guns and border patrols deny hundreds of years of European history? Can they create and enforce this fictitious division down the very center of Europe?

When we think of that monstrous wall, we think first of the very personal violence it expresses: Families divided, a people held prisoner in their own country. But what of the violence—just as real—it does to our history and traditions? What of the violence it does to Europe?

Czeslaw Milosz, the Nobel Prize-winning Polish poet, is one of the many dissident artists, writers, and intellectuals, who were forced to choose exile from the language and country they loved, rather than be exiled from their history and cultural traditions within their own country. In Milosz's famous book, The Captive Mind, he writes about the "extinguishment" he sees in the face of Eastern European intellectuals. Their countries, they know, are rightfully part of an ancient civilization, one that is derived of Rome rather than Byzantium. "It isn't pleasant," he writes, "to surrender to the hegemony of a nation which is still wild and primitive, and to concede the absolute superiority of its customs and institutions, science and technology, literature and art. Must one sacrifice so much . . .?", he asks.

Over a hundred years ago, some Tsarist historians spoke with a contempt born of envy of the "decadent West." One example of such decadence was, no doubt, the music of Frederic Chopin. In a recent essay, the Czechoslovakian author, Milan Kundera, tells of how 14 years after Chopin's death, Russian soldiers on the loose in Warsaw hurled the composer's piano from a fourth-floor window. "Today," writes Kundera, "the entire culture of Central Europe shares the fate of Chopin's piano."

It has often been remarked that of the three great events in European history—the Renaissance, the Reformation, the Enlightment—Russia took part in none. But Mitteleuropa, the region that gave birth to Jan Hus, took part in them all. This region has always looked west, not east. I was struck by the close ties in even its easternmost quarter when I heard the beautiful romance language, so similar to French and Italian, spoken by the people of Romania.

Fortunately, we are beginning to see fissures in the wall. During my visit I saw that, more and more, the natural forces which bring people closer together, rather than push them apart, are beginning to reassert themselves.

We in America feel strong and unbreakable ties with the people of Central Europe. So many Americans came to our country from this region to escape poverty and religious and political persecution. Many still do. America was built in great part through the industry of Hungarians, Germans, Czechs and Poles. Across the street from my office in the White House stands a statue of Tadeusz Kosciuzko, a hero of our revolutionary war, whose brilliance as a military engineer helped free my country from foreign domination. The United States, in fact all of the civilized world, remembers with the deepest gratitude the part played by the free Polish forces in World War II, the brave fighters who rejected Hitler's and Stalin's infamous pact to partition their country. And we will never forget the courage of the Poles who, after years of suffering the ravages of war and the ruthless suppression of their people, rose up again in Warsaw—they fought to the end, while those who call themselves their allies cooled their heels on the east bank of the Vistula river.

The ties of my country to Central Europe are many, our histories are often intimately intertwined. The founder and President of the Czechoslovak Republic, Thomas Masaryk, married an American. Sixty-five years ago this October, he wrote the Czechoslovak Declaration of Independence, a document founded on the same "historic and natural" rights that guided our own forefathers in writing our Declaration of Independence. To quote from that document written by Masaryk: "We accept and shall adhere to the ideals of modern democracy, as they have been the ideals of our nation for centuries." The "nation of Comenius," he said, accepts "the principles of liberated mankind, of the actual equality of nations, and of governments deriving all their just power from the consent of the governed."

The Czechoslovak Republic, which lasted from 1918 until 1938, was one of the most prosperous countries in Europe; its charter guaranteed "complete freedom of conscience, religion and science, literature and art, speech, the press, and the right of assembly and petition."

Today, according to their own constitution, the Czechs are promised the same freedoms; so, too, by written law and international treaties to which the Soviet Union and the governments of Eastern Europe are signatories, are the people of other countries in the region promised these basic human rights. But we have seen how often governmental deeds diverge from official promises. The people in many parts of Eastern Europe must now carry on their culture, their traditions, underground and in fear.

But there are groups, such as the Charter 77 movement in Czechoslovakia, and Solidarity in Poland which have sought to persuade their government to abide by their own laws and international commitments. Because of these individuals, who courageously demand their human rights, and because of the more imaginative leaders in some of these countries who have listened to the just wishes of their people and have sought to democratize their social and economic systems; European culture on the eastern side of the continent will never die.

The United States shares with these people a vision of Eastern Europe in which respect for human rights becomes the norm and not a rare concession to international pressure, where prosperity and advancement replace economic backwardness, and openness overcomes barriers to human contacts and economic cooperation. In approaching the problems of the region, United States policy is guided by certain constants: First, we recognize no lawful division of Europe. There is much misunderstanding about the substance of the Yalta conference. Let me state as clearly as I can: There was no agreement at that time to divide Europe up into "spheres of influence;" on the contrary, the powers agreed on the principle of the common responsibility of the three allies for all the liberated territories. The Soviet Union pledged itself to grant full independence to Poland and to all other states in Eastern Europe, and to hold free elections there. The Soviet violation of these obligations is the primary root of East-West tensions today.

A similar misunderstanding exists about the Helsinki Accord. Some argue that Helsinki endorses the status quo, the present division of Europe. We reject this notion. At review sessions in Belgrade, Madrid, and the upcoming session here in Vienna in 1986, we have stated and will continue to insist that the heart of Helsinki is a commitment to openness and human rights.

Let me stress here that the United States does not seek to destabilize or undermine any government, but our attitude toward the region is informed by a sense of history—of European history. For this reason we support and will encourage all movement toward the social, humanitarian and democratic ideals which have characterized the historical development of Europe. We appreciate the special role of

countries such as Yugoslavia and Austria which have contributed so much to restoring historic patterns of trade and communications.

We share with the people of Eastern and Central Europe three basic aspirations; freedom, prosperity, and peace. We recognize the diversity and the complexity of the region. Of Austria's neighbors to the East, some have shown a greater measure of independence in the conduct of their foreign policy. Some have introduced greater openness in their societies, lowered barriers to human contacts, and engaged in market-oriented economic reforms. Others, unfortunately, continue to toe the Soviet line. Their foreign policy is determined in Moscow, and their domestic policies still flagrantly violate the most fundamental human rights.

In our relations with the countries of Eastern Europe, we take these differences into account. Our policy is one of differentiation—that is, we look to what degree countries pursue autonomous foreign policies, independent of Moscow's direction; and to what degree they foster domestic liberalization—politically, economically and in their respect for human rights. The United States will engage in closer political, economic and cultural relations with those countries such as Hungary and Romania which assert greater openness or independence. We will strengthen our dialogue and cooperation with such countries.

We are not saying that countries must follow policies identical to those of the United States. We will not, however, reward closed societies and belligerent foreign policies—countries such as Bulgaria and Czechoslovakia, which continue to flagrantly violate the most fundamental human rights; and countries such as East Germany and, again, Bulgaria, which act as proxies to the Soviets in the training, funding and arming of terrorists, and which supply advisors and military and technical assistance to armed movements seeking to destabilize governments in the developing world.

Let me stress once more that our hopes for Eastern Europe are peaceful. But we believe that reform is essential. Over the span of many years the United States has provided hundreds of millions of dollars of loans and credits for the Polish economy in the hope that this aid would help build a more plentiful and open society. We cannot, however, be expected to shore up a nation's economy when the government refuses to institute the most basic economic reforms. If countries insist on following the Soviet economic model, even dollars, francs and marcs cannot prevent the certain failure of their economies.

It is by now abundantly clear that highly centralized, command economies cannot fulfill the basic needs of their populations, let alone remain competitive in world markets or keep pace with technological advancement. Just as retarded industrial development relegated much of nineteenth century Central Europe to a backwater of agricultural poverty, there is ample evidence that the unfolding information revolution will sweep past an unprepared Soviet Union and much of Eastern Europe—unless there is basic change. For example, Hungary's relative prosperity demonstrates the practical, positive results that follow on social and economic liberalization.

The countries of Eastern Europe have a choice to make. They can close themselves off, or they can open up and join the world economy positively, as traders rather than debtors. Think about this: 25 percent of all Soviet farm output comes from private plots that occupy less than 3 percent of the Soviet Union's agricultural land. It's doubtful whether Soviet agriculture could survive without this concession to private enterprise.

Freedom is the essential component of progress—the freedom of each individual to bring his knowledge and wisdom to bear on the economic decisions that will directly affect his life. This requires freedom of information, the free flow of ideas and the free movement of people. We take these freedoms to be fundamental, moral precepts; but they are also practical necessities. If a society revises history to suit ideological needs; if it censors information; if it punishes imaginative and creative individuals and discourages initiative in its people—that society condemns itself to ignorance and backwardness and poverty.

Just as freedom and prosperity go hand in hand, so, too, are freedom and prosperity linked to peace. I know that the people of Central Europe, who have such an intimate experience of the waste and horror of war, ardently yearn for peace. President Reagan and I and the American people share in your hopes and desires. Our commitment to nuclear arms reduction—not just arms control, but the reduction of these terribly destructive weapons—is unshakeable. The United States has already unilaterally withdrawn 1,000 nuclear warheads from Europe. The implementation of the 1979 NATO decision to deploy INF will not increase by even one the number of nuclear weapons in Europe. But while we've been withdrawing nuclear weapons,

the Soviets have been engaged in an unprecedented and relentless military buildup in conventional and nuclear arms.

One of the most dangerous and destabilizing new elements is the Soviet Union's monopoly of intermediate-range nuclear missiles—missiles which can strike any target in Europe within a few minutes. The Soviets have already more than sufficient INF weapons in place to meet their security requirements, and yet they seek to further intimidate the people of Europe by dire warnings of counter-deployments in Eastern Europe should NATO go ahead with deployments in December.

It is our hope that the Soviet leadership will have the courage and vision to reverse their dangerous arms buildup. If they show some flexibility at the bargaining table and a balanced approach is adopted, and agreement in Geneva is still possible before the end of this year. Here in Vienna, at the negotiations for Mutual and Balanced Force Reduction, after many years of stalemate, there are some signs of movement for verifiable reduction in conventional forces in Central Europe.

But a prerequisite for peace is respect for international law. Regrettably, the Soviet Union and most of the Warsaw Pact countries continue to flout the human rights agreements to which they are all signatories. And the world is still in shock from the brutal murder of 269 civilians aboard a commercial airliner which strayed off course and was unlucky enough to pass over Soviet territory.

Let me ask you this question: Would the United States, would Austria, ever wantonly shoot down a commercial airliner? Never. But the Soviets resolutely state they would do it again. These are not the actions and words of a civilized system. The European tradition stresses above all things a respect for human life. Those traditions, sadly, are not universal.

What are we to think of leaders who compound such brutal deeds with bald and careless lies and who respond to the just inquires of the international community with utter contempt? This use of brute force is exactly the kind of Soviet behavior in Eastern Europe that the United States has been protesting for years.

Recognition of the true nature of the Soviet system doesn't make our desire for peace any less strong. If anything, it makes it stronger. But we enter all negotiations with the Soviets with our eyes open. We will never give up in our attempts to use reason and whatever reassurances we can give to persuade the Soviets to truly, constructively join the community of nations. Our desire for peace is strong and unfailing. With your help, with the help of all nations, I'm certain we can make that hope a reality.

I'd like to close with the words of a great Mitteleuropean, His Holiness Pope John Paul II. In just three lines he pointed out the road toward a better future;

Persons over Things.

Ethics over Technology.

Spirit over Matter.

I have visited four important nations in Central Europe—nations rich in culture and history; nations with differing systems and perspectives. But in my talks with the leaders and people of these countries, I've become convinced that we all share a common goal—to heal the wounds that separate us, to remove the artificial barriers which divide us, and to reduce the level of fear and terror in the world through arms reduction.

I come away from Eastern Europe with a strong sense of its diversity, a strong sense of the uniqueness of each country. With some, our ties are already greatly improved—my visit is one indication of that. But we are not about to write off a single country. We are ready to respond to each to the extent that they are meeting their own people's aspirations, are pursuing their own, independent foreign policy, and are willing to open up to the rest of the world.

I am an optimist. I see a bright future for Central Europe—a future of peace, prosperity, and freedom. I am positive the barriers will come down and that the desire of our neighbors to the East to once more become a full part of Europe will finally, after many hard bitter years, be fulfilled. In this spirit of reconciliation, we must all work together to make this optimistic vision a reality—to once again make Europe whole.

Thank You.

APPENDIX J: DELEGATION LETTER TO SECRETARY OF STATE GEORGE SHULTZ, DATED JANUARY 12, 1984, REPORTING ON MISSION AND SUMMARIZING FINDINGS

SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., January 12, 1984.

Hon. GEORGE P. SHULTZ,
Secretary of State,
Washington, D.C.

DEAR MR. SECRETARY: I would like to take this opportunity to inform you that the Subcommittee on Trade of the Committee on Ways and Means has recently returned from a trade mission to East and Central Europe (November 26 to December 15). Our delegation visited West Berlin, East Berlin and the GDR, Czechoslovakia, Austria, Hungary, Romania, Bulgaria, and Turkey. The primary purpose of the mission was to discuss bilateral trade relations and the prospects for trade expansion in this region. Although a more detailed trip report will be forthcoming, we wanted to share with you some of our preliminary observations and findings.

On the whole, we are pleased to report that our discussions were very valuable. We were fortunate to be able to talk candidly and in some detail with senior Party and Government officials in all countries, including Gunter Mittag, the Senior Politburo Member with responsibility for the economy in the GDR; Nicolae Ceausescu and Todor Zhivkov, Party leaders of Romania and Bulgaria, respectively; and Deputy Prime Minister Rohlicek of Czechoslovakia. Below are some of the highlights of our deliberations:

Central Europe is very concerned about both Eastern and Western missile deployments. The notion of a "Euroshira" is more vivid and current than ever before because of the commencement of Soviet and U.S. deployments. Reactions to these recent events appear to have been greater in Central Europe than in the U.S., including the impact of the movie "The Day After."

Differentiation is an appropriate cornerstone of U.S. policy toward the individual, and very diverse, countries of Central Europe. Vice President Bush was well advised to restate this policy in Vienna in September. However, the speech was not properly appreciated in many quarters. Some felt that the U.S. was giving undue weight to independent foreign policy stances (i.e., Romania) and too little to central human, social, and economic values, which have been mutually accepted by East and West, in principle, through the CSCE process.

"Maneuver room" is the term most often used in context of measured East European independence and it serves to accurately reflect the marginal degree of individual country policy the U.S. can expect to foster in Eastern Europe. Even with this reservation, there was a generally positive attitude toward U.S. involvement in Eastern Europe, which the delegation found reassuring and somewhat surprising.

An important facet of Central European dynamics is a movement back toward intra European relations, e.g., "Germanness" in the case of the GDR and FRG. This offers the U.S. some problems and opportunities and is an important trend that deserves careful attention.

Economic, scientific, cultural intercourse and exchanges are useful means to encourage constructive "maneuver room" in Central Europe. Our rather warm reception may have been due in large part to the East European view that economic relations are the most promising areas for effective bilateral deliberations. Of course, we acknowledge that there were other reasons for our cordial reception: Our delegation was the first from Congress to visit the GDR, and had about the most extensive intinerary in Eastern Europe of any Congressional group.

As you know, the Subcommittee handles legislation and oversight responsibilities under the trade laws regarding the application of nondiscriminatory most

favored nation (MFN) trading status to nonmarket economy countries. In addition to Hungary and Romania, several of the countries visited may become candidates for extension of MFN status in the future. We believe such countries have the potential of becoming important trading partners with the United States and warrant the close attention of the Administration and the Subcommittee.

The U.S. is, overall, the most restrictive and least competitive of the OECD countries in its trade with Central Europe. Canada's recent trade agreement with the GDR that extends MFN and agricultural credit guarantees to facilitate their new long-term grain agreement effectively takes away another U.S. market. Moreover, the Japanese business presence is very strong in this area.

U.S. diplomatic representation in the field is very good to outstanding. Although in some countries there is limited high-level diplomatic exchange and very modest commercial relations, we believe the need for knowledgeable commercial, agricultural, and economic officers to help interpret, monitor, and conduct U.S. business is extremely important. The efforts of these officers are integral to the future of U.S. markets in Eastern Europe.

We would like to make available to you and your senior staff the Members of the delegation and staff for briefings and discussions about our mission. We would also call your attention to the excellent reporting cables which summarized our discussions and the local press coverage. We are also sending a copy of this letter to Secretary of Commerce Baldrige, Secretary of Agriculture Block, and Ambassador Brock to the same end.

Furthermore, the Subcommittee is planning to meet with the ambassadors and staffs of the respective countries visited. Such meetings were also held prior to our departure. In preparing for these follow-up sessions and for future Subcommittee activity, the Subcommittee would find it most useful if answers could be provided to the enclosed questions. Responses would be appreciated by February 15, 1984.

Let us close by expressing the gratitude of the entire delegation for the help and assistance of the State Department, the CIA, and all the other Executive agencies involved in the planning and execution of our mission.

Sincerely,

SAM M. GIBBONS,
Chairman.
JAMES R. JONES,
Member of Congress.
SANDER M. LEVIN,
Member of Congress.
BILL FRENZEL,
Member of Congress.
BARBER B. CONABLE, JR.,
Member of Congress.
DOUGLAS K. BEREUTER,
Member of Congress.

Enclosures.

QUESTIONS TO ADMINISTRATION

1. In assessing U.S. bilateral relations with the nations of the CMEA-Five (European CMEA less the USSR and Poland that were not on our itinerary), what bilateral trade benefits (e.g., tariffs and credits) and associations (e.g., IMF, World Bank, GATT membership) are lacking? Can you provide a rank order of those most likely to be extended given current mutual East-West interest? How would such changes benefit the United States in political and economic terms? Is the U.S. now actively discussing such changes; in short, is there a current, dynamic Central European strategy being carried out in Washington? Should the U.S. be preparing for more flexibility in its Central European policy?

2. It seems that the U.S. is the most restrictive and least competitive of the OECD countries trading with the CMEA. Why is the U.S. so unilaterally restrictive and non-competitive? Is the U.S. Government tying the hands of American diplomacy and business, needlessly sacrificing influence, exports, production, and jobs? Must this be the case? Is this the necessary burden of being the Western superpower? What share of the Central European market might the U.S. control if it were no less restrictive and no less competitive than other Western nations? Could the U.S., for example, win back the GDR grain market that just went over to Canada? Recent ECE reports project expanding East-West trade. Can the U.S. influence the expan-

sion of total East-West trade? How can the U.S. obtain its "natural" share of an expanding Eastern market?

3. Are there any assessments of the potential economic impact of the extension of MFN and Government credits to Bulgaria, Czechoslovakia, or the GDR on both the U.S. and the individual East European countries? If so, please provide the Subcommittee copies of such studies. Would the findings still be valid today? Absent detailed studies, what in your judgment would be the order of magnitude in trade benefits to the U.S. and Eastern countries from "Normalization?"

4. How does Soviet economic policy toward the East European members of CMEA affect the benefits likely to be gained from East-West trade? Would the Soviets be likely to improve their CMEA terms of trade or worsen them if a United States policy of normalization were extended? Should the U.S. try to influence Soviet CMEA policy? If yes, how might the U.S. be effective?

APPENDIX K: DELEGATION LETTER TO U.S. TRADE REPRESENTATIVE WILLIAM E. BROCK, DATED FEBRUARY 21, 1984, CONCERNING WEST BERLIN

SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., February 21, 1984.

Hon. WILLIAM E. BROCK,
U.S. Trade Representative,
Washington, D.C.

DEAR MR. AMBASSADOR: During the recent Subcommittee trade mission to Central and Eastern Europe, our delegation had the opportunity to visit West Berlin and meet with government and business leaders. The Members were particularly impressed with the efforts of the city to attract investment in high technology industries.

Since it is clear that the United States has a special responsibility for Berlin, we strongly support attempts to strengthen its economy, improve its industrial base, and promote the free flow of trade and investment. We believe one way to assist in this goal is to encourage trade with Berlin in the high technology sector. The delegation noted that Berlin has an emerging high technology industry and work force and has the potential to become a leading center in Europe for advanced electronic technology.

It is our understanding that the European Community currently maintains a 17 percent tariff on electronic components imported into Berlin. We believe that this tariff barrier operates as a disincentive to high technology trade and investment with Berlin, particularly in view of the problems electronics companies have in moving components between subsidiaries. Therefore, we request that you consider raising this issue with the European Community in your upcoming bilateral high technology talks. Specifically, we urge you to seek a reduction in the tariffs on semiconductors and other electronic components as means of attracting new high technology investment to Berlin.

We would also appreciate hearing your views and would urge your consideration of this matter.

Thank you.

Sincerely,

SAM M. GIBBONS,
Chairman.
JAMES R. JONES,
Member of Congress.
SANDER M. LEVIN,
Member of Congress.
BILL FRENZEL,
Member of Congress.
BARBER B. CONABLE,
Member of Congress.
DOUGLAS K. BEREUTER,
Member of Congress.

○